

GAO

Briefing Report to the Chairman,  
Subcommittee on Transportation,  
Committee on Appropriations  
House of Representatives

May 1986

# AVIATION FUNDING

## Options Available for Reducing the Aviation Trust Fund Balance



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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

RESOURCES, COMMUNITY,  
ECONOMIC DEVELOPMENT  
DIVISION

May 21, 1986

B-222235

The Honorable William Lehman  
Chairman, Subcommittee on  
Transportation  
Committee on Appropriations  
House of Representatives

Dear Mr. Chairman:

This briefing report is one of a series of planned reports responding to your request that we monitor the National Airspace System plan as administered by the Federal Aviation Administration (FAA). As agreed with representatives of your office, the review that is the subject of this report examined the plan's funding source--the airport and airway trust fund--specifically to (1) discuss the fund's history, particularly as it relates to the purpose of the fund and aviation excise taxes; (2) identify and measure the current and projected trust fund balances; and (3) examine options available to the Congress for addressing the size of the trust fund balance and its revenue and expenditure levels. As part of this review, we analyzed FAA documents and data on the history of the trust fund as well as projections of future trust fund activities; we discussed these topics with officials of FAA, the Office of Management and Budget, and various aviation organizations.

The airport and airway trust fund was established by the Congress in 1970 to provide a source of continuous funding to ensure adequate investment in aviation's capital facilities. The fund's revenues are generated by excise taxes paid by the aviation industry and its users and interest income received from the fund's investment in Treasury securities. However, these revenues are not kept physically separate from other government revenues, such as income tax receipts. Instead all excise tax receipts are deposited in the Department of the Treasury's general fund as are most monies collected by the federal government. The Department periodically estimates the amount of excise taxes received by the general fund and makes a bookkeeping entry crediting this amount to the trust fund account.

Trust funds are used for FAA's facilities and equipment; airport improvement; research, engineering and development; and a part of FAA's operations and maintenance costs. Trust funds cannot be expended for these activities until they are

appropriated by the Congress. Unless reauthorized by the Congress, the excise taxes and the trust fund expire at the end of 1987.

Over the years the fund has built up a substantial unused balance--monies remaining in the trust fund that are not budgeted for aviation projects and that FAA cannot spend or otherwise commit for expenditure without congressional approval. The fund's current unused balance of \$3.2 billion could increase to \$12.4 billion by the end of fiscal year 1990 if (1) the trust fund and aviation taxes are reauthorized without change and (2) revenues and expenditures materialize as projected. The requirements of the Balanced Budget and Emergency Deficit Control Act of 1985 may result in further increases in the size of the unused balance.

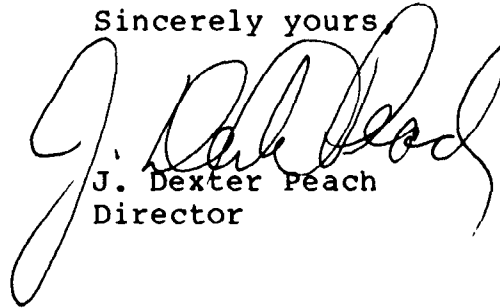
The trust fund's unused balance represents a reserve that can be made available by the Congress as appropriate to cover unforeseen circumstances and other contingencies. However, the experience of the fund over its 15-year history demonstrates that balances lower than the current level (\$3.2 billion) have always been adequate. If the Congress decides the current and projected unused balance levels are too high, it could consider a range of options during the reauthorization deliberations. These options and the competing policy considerations or issues associated with each are discussed in this report. All of these options would require a change to existing law. Though the options available are numerous, they generally fall into one of two broad categories: reducing fund revenues or increasing fund expenditures.

Opinions on the appropriateness of the options are likely to vary, depending upon how one views the mission of the trust fund, how well aviation or aviation-user needs are being met by the fund, and the purpose of the aviation excise taxes. Central issues in this regard are whether the purpose of the fund should be expanded and whether Congress considers it appropriate to levy aviation taxes at rates that produce revenues in excess of projected aviation needs and to use that excess to finance other government programs.

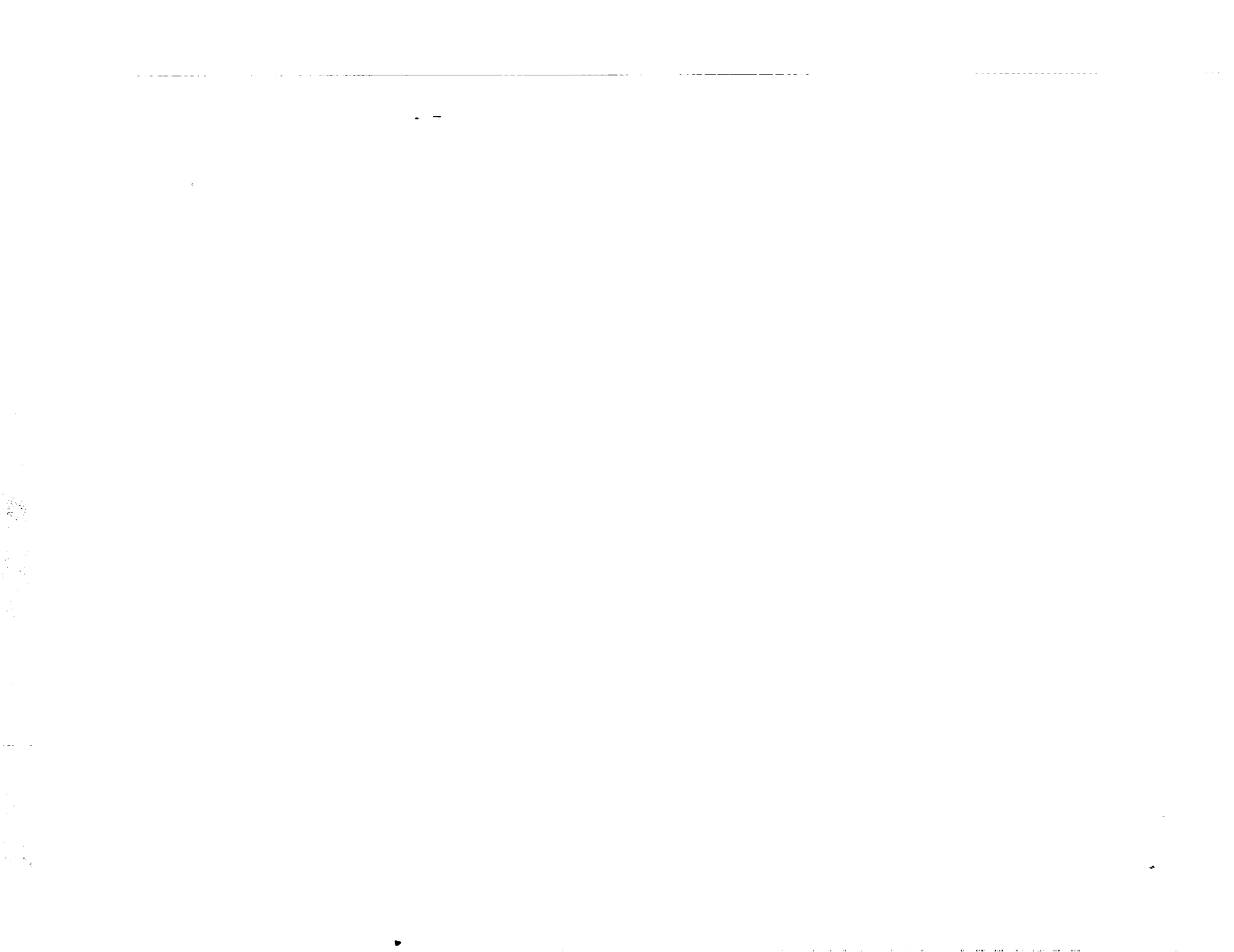
The information in this report was first presented to your office in a briefing on March 26, 1986. As agreed with your office, we did not obtain official agency comments on a draft of this report; however, we did discuss its contents with representatives of the aviation community, the Department of Transportation, and FAA. We have incorporated, where appropriate, the views and comments of these representatives and officials.

As arranged with your office, we are sending copies of this report to the Secretary of Transportation and to the Administrator, FAA. Copies will also be made available to other interested parties upon request. If you have any additional questions or if we can be of any further assistance on this issue, please feel free to contact me or Herbert R. McLure, Associate Director, at 275-7783.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'J. Dexter Peach', written in a cursive style. The signature is positioned above the printed name and title.

J. Dexter Peach  
Director



**BRIEFING REPORT**

**AVIATION FUNDING:  
OPTIONS AVAILABLE FOR  
REDUCING THE  
AVIATION TRUST FUND  
BALANCE**

**GAO's REVIEW OF THE  
AIRPORT AND AIRWAY TRUST FUND**

**PREPARED AT THE REQUEST OF THE  
CHAIRMAN, SUBCOMMITTEE ON TRANSPORTATION  
COMMITTEE ON APPROPRIATIONS  
HOUSE OF REPRESENTATIVES**

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## ABBREVIATIONS

AIP	Airport Improvement Program
ALPA	Air Line Pilots Association
AOCI	Airport Operators' Council International
ATA	Air Transport Association
AWOS	Automated Weather Observing System
DOT	Department of Transportation
F&E	Facilities and Equipment
FAA	Federal Aviation Administration
GAMA	General Aviation Manufacturers Association
GAO	General Accounting Office
NAS	National Airspace System
O&M	Operations and Maintenance
OMB	Office of Management and Budget
RE&D	Research, Engineering, and Development

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## HIGHLIGHTS OF REVIEW

### Purpose of Review

The purpose of GAO's review was to identify the current and projected Airport and Airway Trust Fund unused balance and to examine options available to the Congress for addressing the size of the unused balance and its revenue and expenditure levels. The unused balance is the amount of money remaining in the fund that has not been appropriated and which, without an appropriation, the Federal Aviation Administration (FAA) cannot obligate or otherwise commit for expenditure.

### Airport and Airway Trust Fund

The trust fund was established by the Congress in 1970 to provide a source of funding primarily to finance aviation capital improvements. In addition, the fund can be used to finance a portion of FAA's operations and maintenance costs. The trust fund is financed by excise taxes on the aviation industry and its users, such as an 8-percent tax on airline tickets. Also, the fund receives interest from its investment in Treasury securities. Unless reauthorized, the taxes will expire at the end of calendar year 1987 and the authority to make expenditures from the trust fund will expire at the end of fiscal year 1987.

### Trust fund-general fund relationship

Under current law, aviation excise taxes are deposited in the general fund of the Treasury. The taxes are not kept separate from other government revenues (such as income tax receipts) and the Treasury does not take an amount of money equivalent to the excise tax receipts and set it aside for later use by the trust fund. Instead, the Treasury periodically estimates the amount of excise taxes received by the general fund and makes a bookkeeping entry crediting this amount to the trust fund account. Meanwhile, the general fund will use the money to fund other federal programs until it is needed to fund aviation projects. Interest-bearing Treasury securities are issued to the trust fund to represent the amount of excise taxes deposited in the general fund that were not used to meet trust fund obligations.

### Trust fund's financial picture

Since 1971 about \$22.9 billion has been credited to the fund--about \$18.6 billion represents excise tax revenues; the remaining \$4.3 billion represents interest earned by fund investments in Treasury securities. During the same period, the fund has financed an average of about 45 percent of FAA's total budget (about \$20 billion). In fiscal year 1985 the fund financed about 70 percent of FAA's total budget. The trust fund's unused balance at the end of fiscal year 1985 was about \$3.2 billion.<sup>1</sup>

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<sup>1</sup>Balance does not add due to rounding.

Fund's unused balance projected  
to grow significantly through 1990

The trust fund's unused balance will grow throughout the latter part of the 1980's to about \$12.4 billion by the end of fiscal year 1990. The growth in the unused balance will result from: (1) annual increases in trust fund revenues, including interest, through fiscal year 1990; and (2) insignificant increases in projected trust fund expenditures throughout the period. So that we could portray what would occur if the Congress reauthorized the trust fund and excise taxes with no change, these projections are based on the assumption that no changes occur in existing law through fiscal year 1990.

The trust fund's unused balance represents a reserve that can be made available by the Congress as appropriate to cover unforeseen circumstances and other contingencies. However, the experience of the fund over its 15-year history shows that it has never needed an unused balance in the neighborhood of the current \$3.2 billion.

Options to decrease the  
fund's unused balance

If the Congress wishes to reduce or maintain the trust fund's unused balance, the options for doing so fall into two general categories--increase trust fund expenditures or decrease trust fund revenues. All of the options would require legislation in order to be implemented. The acceptability of the individual options within the two general categories will depend on the objectives one has for the trust fund, opinions about how well aviation user needs are being met by the fund, and views on the purpose of the aviation excise taxes.

For example, if aviation taxes are viewed solely as a vehicle for funding aviation needs, then a matching of revenues with aviation expenditure needs would seem reasonable. On the other hand, a different approach would be necessary if the excise taxes are viewed as having a secondary purpose, such as directly financing federal programs not related to aviation.

Specific options within the two general categories have various effects on the trust fund and government finances. The options presented in this report are not mutually exclusive; they could be done in combination.

Increase trust fund expenditures

Trust fund expenditures could be increased by (1) paying a larger percentage of FAA's operations and maintenance (O&M) of air navigation facilities, including salaries and training of air traffic controllers and safety inspectors, and/or (2) increasing airway improvement and/or airport (grant) improvement program expenditures.

As determined by a formula contained in current law, trust funds usually pay less than 50 percent of FAA's O&M costs--the remainder are financed by the general fund. Increasing the fund's share of operations and maintenance to 75 percent would increase trust fund expenditures by about \$4.4 billion and decrease interest to the fund by \$0.5 billion between fiscal years 1988 and 1990, yielding an unused balance of about \$7.5 billion at the end of this period. While the option for financing a greater portion of O&M costs with trust funds could easily shift the fund's primary mission from capital to operations, it would not require a net increase in federal expenditures because trust funds would simply replace the portion of O&M now covered by general funds.

The option for increasing fund expenditures for the airway and airport improvement programs would require a net increase in federal expenditures for aviation because the trust fund currently pays for 100 percent of these programs. While there may be no shortage of ideas on how to increase spending for these programs, a major issue is the extent to which proposed projects or accelerated implementation schedules for existing projects can be justified from the standpoint of feasibility, benefits, and cost. We found agreement among aviation organizations that spending should be increased, but less agreement on the projects the monies should be spent on. Some aviation groups emphasize spending increases that tend to benefit general aviation, while others focus on spending for commercial aviation.

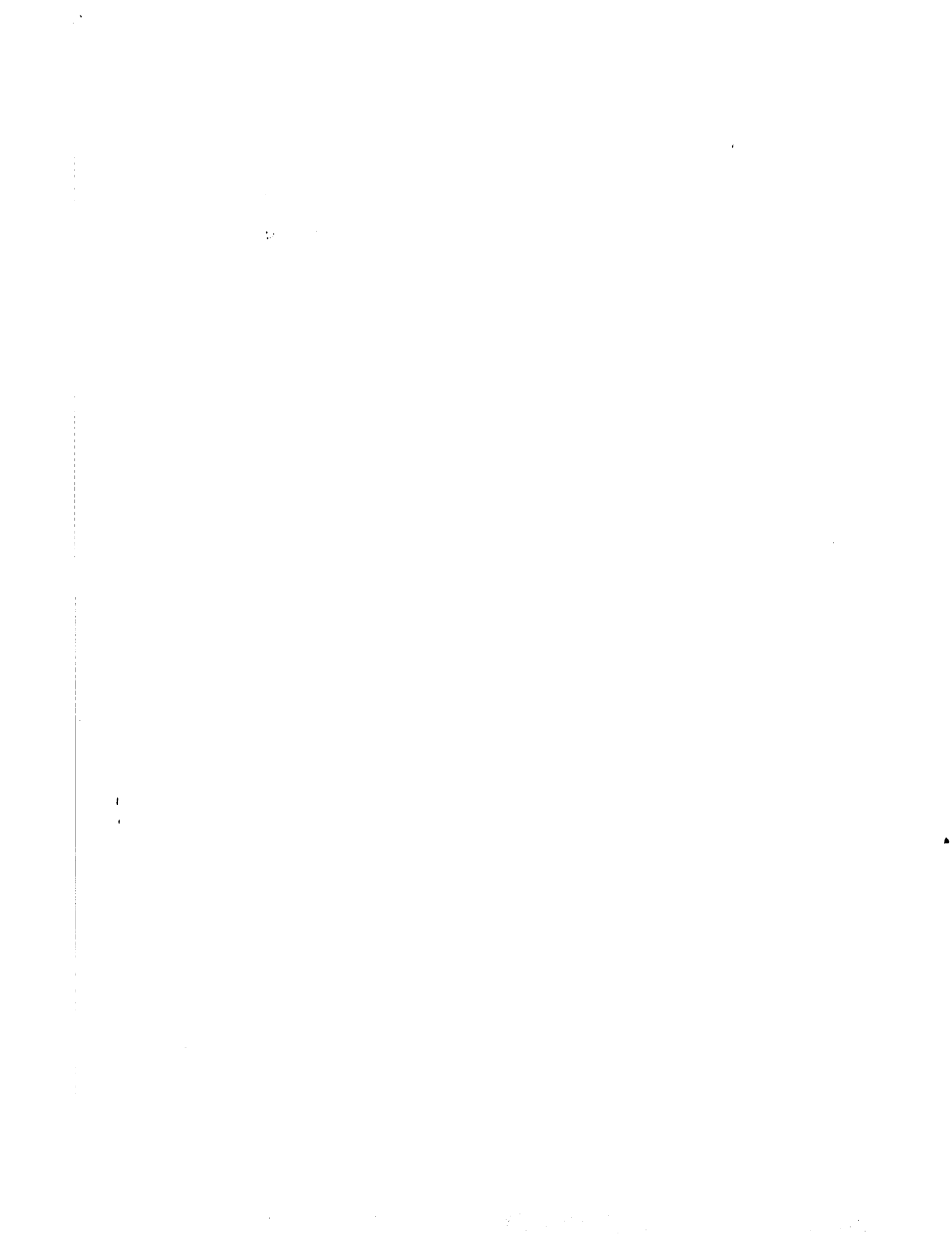
#### Decrease trust fund revenues

Revenues could be decreased by (1) decreasing the excise tax rates or letting some or all of the taxes expire for a temporary period, (2) waiving interest payments to the trust fund, or (3) depositing excise tax receipts in the Treasury's general fund with no corresponding credit to the trust fund.

A 10-percent decrease in taxes between fiscal years 1988 and 1990 would result in about a \$1.1 billion decrease in tax receipts and about a \$0.1 billion decrease in interest income, reducing the projected \$12.4 billion unused balance to \$11.2 billion. If excise taxes were allowed to expire for a 1-year period (for example, fiscal year 1988), the unused balance at the end of fiscal year 1990 would be about \$8.2 billion. However, options for reducing the taxes or allowing them to expire could be challenged on grounds that it is not practical to reduce federal revenues at a time when reduction of the deficit is a national priority. The option for waiving interest throughout the fiscal year 1988-1990 period would reduce the projected unused balance to about \$10 billion. However, waiving interest would cause the aviation trust fund to be treated differently than other federal trust funds--such as the highway trust fund--which invests its funds and is credited with interest earned.

Depositing excise taxes in the general fund without a corresponding credit to the trust fund is the most flexible method by which to reduce the fund's unused balance. The amount deposited in the general fund without credit to the trust fund could be equivalent to the difference between total revenues collected and those revenues needed to match appropriations for aviation needs and a reasonable contingency reserve. This approach, however, would convert the aviation excise taxes into a mixed purpose type of tax and involve the use of excise taxes for a secondary purpose, namely, the direct financing of other federal programs.

We are making no recommendations on the policy issues and options discussed in this report, but present this information to provide the Congress with a framework in which to make reauthorization decisions.



**GAO's PURPOSE AND OBJECTIVES**

**THE CONGRESS WILL NEED TO DELIBERATE ON POSSIBLE  
CHANGES TO THE AVIATION TRUST FUND BEFORE THE END  
OF FISCAL YEAR 1987**

**GAO's OBJECTIVES ARE TO**

- DISCUSS THE FUND'S HISTORY, PARTICULARLY AS IT  
RELATES TO THE PURPOSE OF THE FUND AND AVIATION  
EXCISE TAXES**
- IDENTIFY AND MEASURE THE CURRENT AND PROJECTED  
TRUST FUND BALANCES**
- EXAMINE OPTIONS AVAILABLE TO THE CONGRESS FOR  
ADDRESSING THE SIZE OF THE TRUST FUND BALANCE  
AND REVENUE AND EXPENDITURE LEVELS**



Purpose and objectives of  
GAO's review

The Chairman of the House Appropriations Subcommittee on Transportation requested that GAO monitor and periodically report on FAA's implementation of an extensive airway improvement program--the National Airspace System plan. As part of this request, GAO reviewed the airport and airway trust fund, the primary funding source for the plan. The trust fund, created in 1970, is funded through excise taxes paid by the aviation industry and its users. Unless reauthorized, the ability to use trust funds will terminate at the end of fiscal year 1987; the excise taxes expire at the end of calendar year 1987.

As agreed with representatives of the Subcommittee, GAO's objectives in this assignment were to (1) discuss the fund's history, particularly as it relates to the purpose of the fund and aviation excise taxes; (2) identify and measure the current and projected trust fund balances; and (3) examine options available to the Congress for addressing the size of the trust fund balance and revenue and expenditure levels. It was not within the scope of this review to examine whether an aviation trust fund and aviation excise taxes are the appropriate vehicles for financing aviation projects, nor did we examine the appropriateness of the excise tax levels.

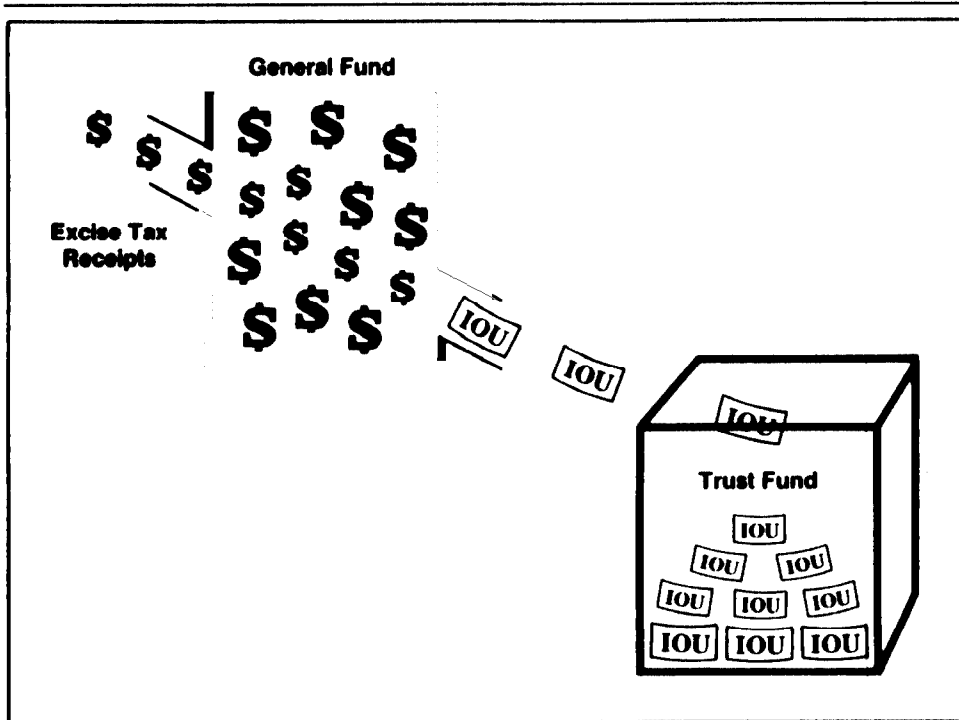
As part of this review, we analyzed FAA documents and data on the history of the trust fund, as well as administration and FAA projections of future trust fund activities. We also discussed these topics with officials of FAA, the Office of Management and Budget (OMB), and various aviation organizations. Unless otherwise noted, estimates of the trust fund balance presented in this report for fiscal years 1988-1990 are based on a "status quo" assumption that the trust fund, the excise taxes, and the authority to deposit these taxes in the fund are reauthorized without change. The options presented to lower the unused balance are then based on changes the Congress could make, should it decide to reauthorize the fund.

Interest losses were calculated for each of the options considered for reducing the trust fund's unused balance. For each option, increased expenditures or decreased revenues were estimated for each of the years 1988 through 1990. Lost interest for each year's reduction in the unused balance was calculated by multiplying one-half of the annual reduction by that year's predicted 12-month Treasury bill rate (taken from Data Resources Inc.'s winter 1985-1986 long-term forecast). This approach assumes that budget surpluses are invested in 12-month Treasury bills (which they are) and that each year's expenditure increase or revenue decrease is spread evenly throughout the year. For 1989 and 1990 this interest loss is augmented by the lost interest due to previous years' reductions in the unused balance. These reductions include both the expenditure increase or the revenue decrease occurring in those previous years as well as the interest lost in those years. The total interest loss for each option is simply the sum of the losses for the years 1988 through 1990.

**TRUST FUND-GENERAL FUND RELATIONSHIP**

--Historical Overview--

Fig. 1: Trust Fund - General Fund Relationship



**GENERAL FUND USES TRUST FUND MONIES FOR OTHER PURPOSES  
UNTIL NEEDED BY THE TRUST FUND FOR AVIATION PROJECTS**

Trust fund-general fund  
relationship

Critical to an understanding of how the trust fund works is the relationship between the aviation trust fund and the Treasury's general fund.

As are most monies collected by the federal government, all aviation excise taxes are deposited in the general fund. Thus, when references are made to trust fund revenues or to deposits of excise taxes in the aviation trust fund, this does not mean that the excise taxes are kept physically separate from other government revenues (such as income tax receipts) or that the Treasury takes an amount of money equivalent to excise tax receipts and sets it aside or maintains a cash reserve for later use by the trust fund.

Under current law, the Department of the Treasury periodically estimates the amount of excise taxes received by the general fund and makes a bookkeeping entry crediting this amount to the trust fund account. Meanwhile, the general fund uses the money to fund other federal programs and makes money available to the trust fund, when necessary, to fund aviation projects. The Treasury also credits the trust fund with the interest on the amount of money (excise tax receipts) deposited in the general fund that was not needed to meet aviation trust fund obligations.

It is important to recognize that to the extent the combined expenditure needs of the trust fund and other federal programs in any given year exceed the aggregate amount of revenues received by the government that year, the Treasury will have to borrow from the public to make up the difference. The fact that the aggregate total of aviation excise taxes credited to the trust fund account over the years, plus interest earned on fund balances, exceed aggregate trust fund expenditures does not change this result. The result would be different, however, if sufficient revenues are collected from all sources to cover all of the expenditure needs of all federal programs.

**PURPOSE OF THE TRUST FUND**

**--Historical Overview--**

**THE TRUST FUND WAS ESTABLISHED IN 1970 TO PROVIDE A CONTINUOUS SOURCE OF FUNDING, PRIMARILY FOR AVIATION'S CAPITAL IMPROVEMENTS. HOWEVER, IT CAN ALSO BE USED TO FUND A PORTION OF FAA OPERATIONS AND MAINTENANCE COSTS**

**THE TRUST FUND WAS REAUTHORIZED IN 1982 AND TAX RATES WERE INCREASED TO FINANCE FAA'S NATIONAL AIRSPACE SYSTEM PLAN**

**UNLESS REAUTHORIZED BY THE CONGRESS, THE AUTHORITY TO MAKE EXPENDITURES FROM THE TRUST FUND WILL EXPIRE AT THE END OF FISCAL YEAR 1987; THE AVIATION EXCISE TAXES WILL EXPIRE AT THE END OF CALENDAR YEAR 1987**

Primary purpose of trust fund is  
to finance capital projects

The trust fund was established by the Airport and Airway Revenue Act of 1970 (Title II of Public Law 91-258). The legislative history indicates the fund was principally set up to provide money for the capital development of the airport and airway system. Examples of capital improvements financed by the trust fund include advanced radars, ground and air collision-avoidance systems, weather services equipment, ground to air communications systems, instrument and microwave landing systems, and acquisition of flight service facilities. Trust funds cannot be expended unless first appropriated by the Congress.

The funds necessary to finance these projects come from excise taxes on the aviation industry and its users and those taxes are deposited into the fund. For the most part, the excise taxes existed before the trust fund was established but the 1970 act generally increased the tax rates. Prior to the 1970 act, the excise tax receipts could be used to fund any federal program or activity; there was no requirement that they or an equivalent sum be used for aviation purposes either during the fiscal year in which collected or in any subsequent fiscal year.

The 1970 act establishing the trust fund stated that (1) the current airport and airway system was inadequate to meet projected aviation growth, (2) substantial system expansion and improvement were necessary, and (3) an expanded program of federal matching grants was needed to sponsors of airports serving commercial and general aviation. The Congress believed that the deposit of aviation excise tax receipts in the newly established trust fund would provide a guarantee that the funding necessary to address these problem areas would be available.

In addition to aviation capital improvements, trust funds can be used to finance a portion of FAA's operations and maintenance costs. However, the authorization to finance a portion of these costs indicated that this was to be secondary to the objective of funding capital improvements. Specifically, the Airport and Airway Development Act of 1970, as amended, which authorizes expenditures from the trust fund, provides that operations and maintenance costs can be financed by the balance of monies available in the trust fund after funding capital improvements.

The trust fund legislation provided that the increases in aviation user taxes and the authority to deposit the taxes into the trust fund would expire at the end of fiscal year 1980. However, the Congress did not reauthorize the increase in aviation excise taxes or deposits into the trust fund before the end of fiscal year 1980. Actually, the Senate had agreed on legislation reauthorizing the tax rates and their deposit into the fund but no action on the Senate bill was taken by the House. Because no legislation was enacted to reauthorize the increases in tax rates or the deposit of these funds into a trust fund, the tax rates

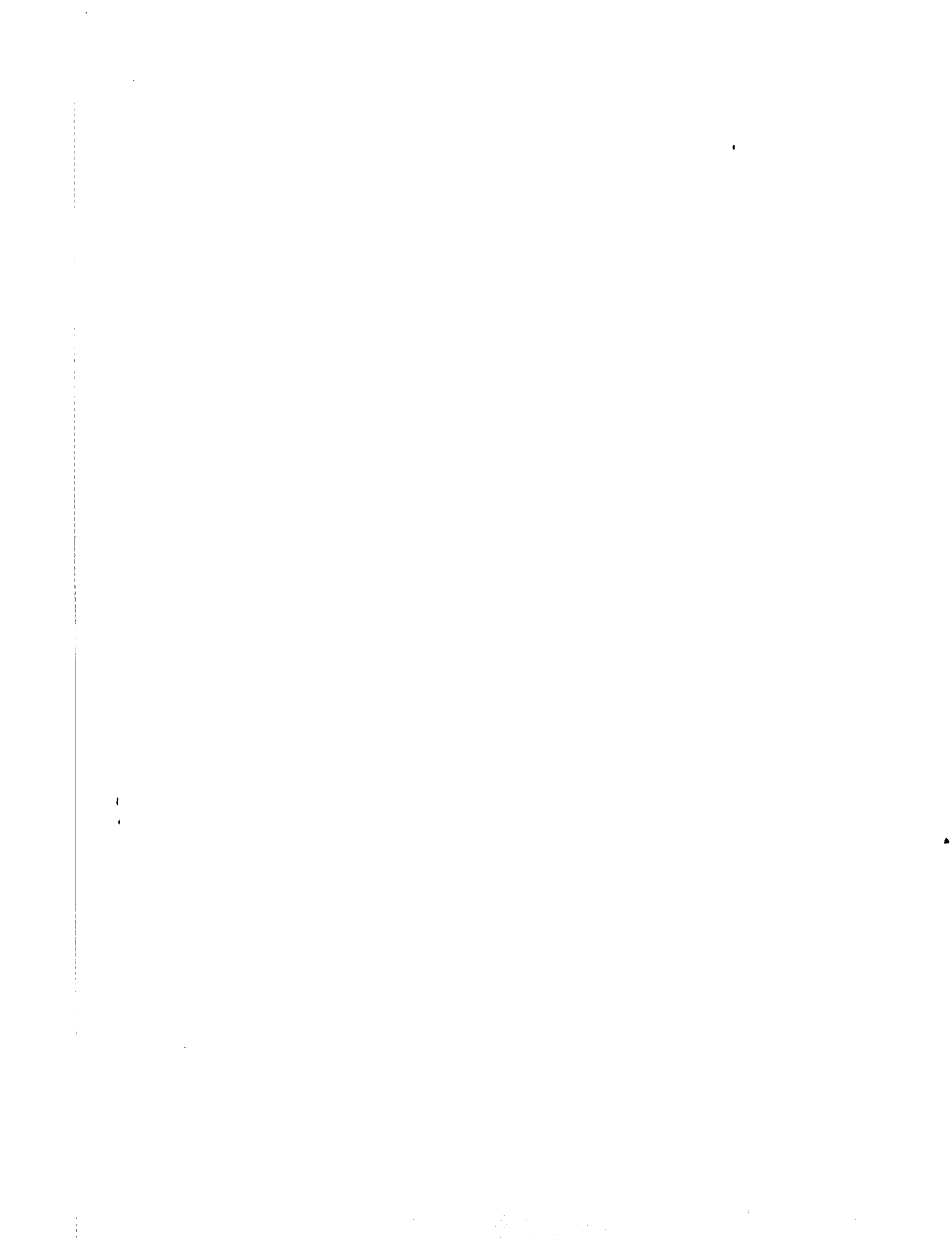
were decreased to their pre-1970 levels at the beginning of fiscal year 1981, and the tax receipts were deposited in the general fund. Once again the tax receipts could be used for non-aviation programs without a requirement that an amount equivalent to the excise tax receipts be credited to the trust fund.

In 1981, the Senate Committee on Commerce, Science, and Transportation agreed to a reauthorization bill; however, before it was reported out of committee, FAA introduced its National Airspace System plan and the committee realized that the expenditures FAA anticipated were needed for this plan substantially exceeded those contemplated by the committee when it proposed the tax rate levels in the bill.

In 1982 the Congress enacted reauthorizing legislation when it passed the Airport Improvement Act of 1982 (Title V of Public Law 97-248, 49 U.S.C. 2201-2225). The act reauthorized the deposit of aviation excise taxes into the trust fund starting in September 1982--or 23 months after the end of fiscal year 1980. For the most part, the tax rates were returned to the pre-1980 levels. An exception to this was that one tax paid by general aviation was doubled and another it had been paying was allowed to expire.

During the 23-month period in which taxes were collected but not credited to the fund, the Congress appropriated trust funds to finance FAA programs and activities. This was possible because of the fund's large unused balance at the end of fiscal year 1980 and interest income collected during fiscal years 1981 and 1982. About \$2.8 billion in trust funds were expended during fiscal years 1981 and 1982.

Unless reauthorized by the Congress, the taxes will expire at the end of calendar year 1987 and the authority to make expenditures from the trust fund will expire at the end of fiscal year 1987.

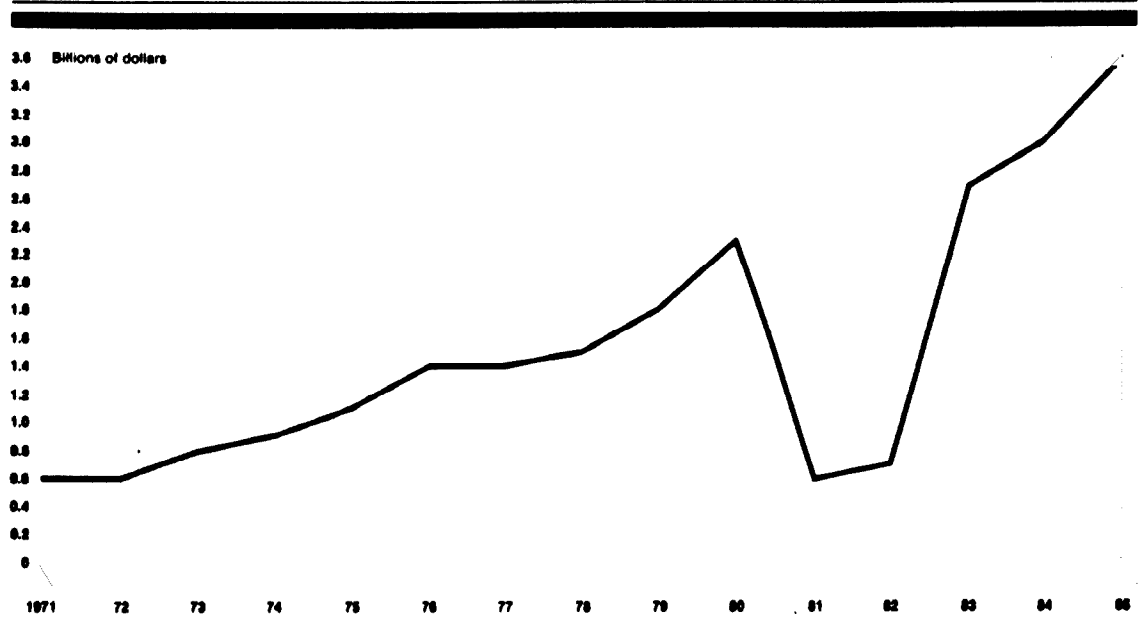


## TRUST FUND REVENUES 1971-1985

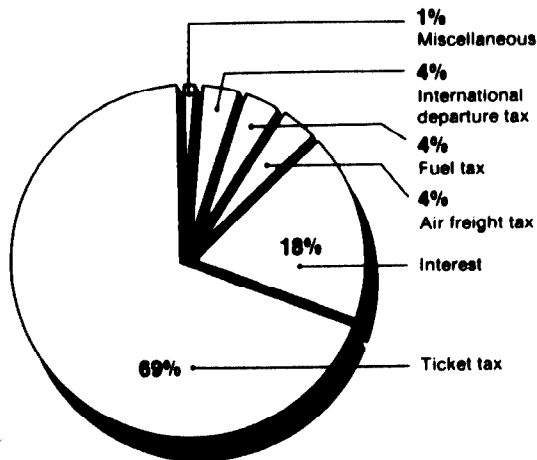
--Historical Overview--

**FROM 1971-1985 INCLUSIVE THE TRUST FUND RECEIVED ABOUT \$22.9 BILLION IN REVENUES--\$18.6 BILLION FROM EXCISE TAXES AND \$4.3 BILLION IN INTEREST**

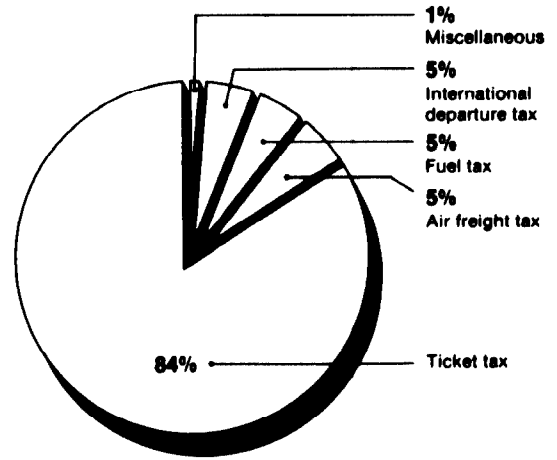
**Fig. 2: Trust Fund Revenues, 1971-1985**



**Fig. 3: Percentage of Total Revenues**



**Figure 4: Percentage of Total Excise Taxes**





Trust fund financed by  
aviation user taxes

The trust fund is financed by aviation excise taxes including

- an 8-percent ticket tax on commercial air passenger' transportation within the United States,
- a \$3.00-per-passenger departure tax applied to international air transportation beginning in the United States,
- a 5-percent tax on the amount paid for transporting property by air beginning and ending in the United States,
- a 12-cent-a-gallon tax on gasoline and a 14-cent-a-gallon tax on jet fuel used by general (noncommercial) aviation, and
- taxes on aircraft tires and tubes and an aircraft registration tax (expired at the end of calendar year 1983).

The 1970 act required that the Secretary of the Treasury invest trust fund monies not required to meet current withdrawals in interest-bearing obligations of the United States (Treasury securities). The act required that interest earned on these investments be credited to the trust fund. The rationale for Treasury interest payments is that Treasury's general fund uses the money credited to the trust fund for other federal programs until such time as the fund needs the money to pay for its aviation program obligations. In effect, Treasury is borrowing money from the trust fund instead of from the public. It pays interest on the money borrowed from the fund just as it would have paid on money borrowed from the public.

The aviation excise taxes were set at rates that were intended to assure that adequate revenues would be available to provide the cost of the development outlined in the National Airspace System plan and other aviation needs funded by the trust fund.

Since 1971 about \$22.9 billion in revenues has been deposited in the trust fund. About \$18.6 billion of the revenues represents excise tax revenues; the remaining \$4.3 billion represents interest earned by the trust fund on its investment in Treasury securities. The annual revenues, including interest, reached \$3 billion for the first time in fiscal year 1984.

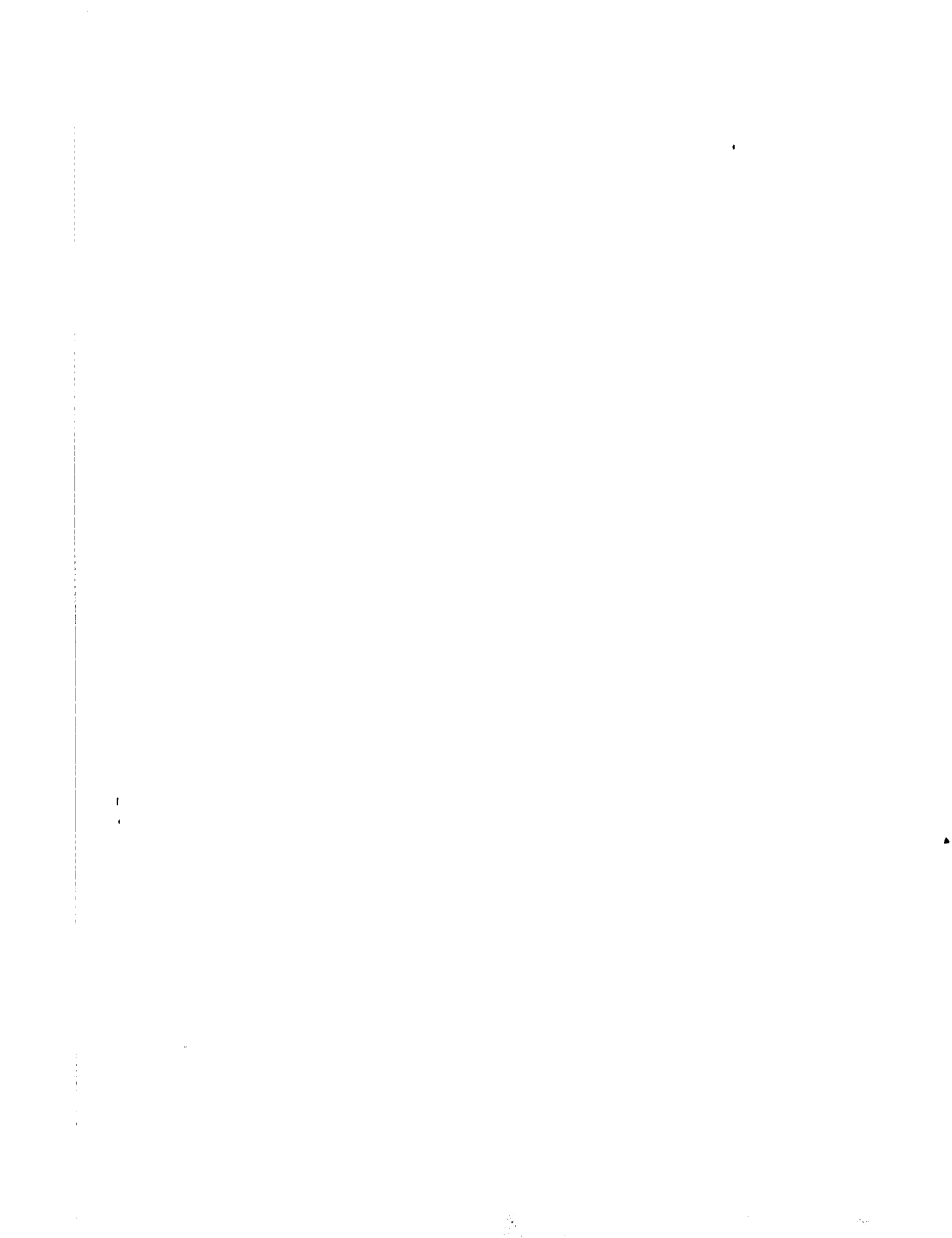
Except for two periods--1973 and 1981-82--trust fund revenues have increased. The trust fund received monies on a nonreimbursable basis from the general fund in fiscal years 1971 through 1973 to assure its solvency. However, these payments were small in 1973 and have not been needed since. The decrease of

these payments accounts for the 1973 decrease in revenues. The 1981-82 decrease was caused by the termination of excise tax deposits into the trust fund.

When revenues from all sources (including interest) are considered, the ticket tax accounts for 69 percent of total trust fund revenues and for 84 percent of the excise taxes deposited in the trust fund. Interest income is by far the second largest source of revenue to the trust fund. The other three current taxes--freight, fuel, and international departures--contribute about an equal amount of revenue to the trust fund.

The fuel tax, which is not paid by commercial aviation, represents general aviation's contribution to the trust fund. Since 1971, about 5 percent of the excise taxes paid into the trust fund were fuel taxes. General aviation does not pay any of the other excise taxes. In the past, general aviation also paid a tube and tire tax as well as a registration tax, but these taxes expired at the end of calendar year 1983.

The amount of revenue raised through the expired registration tax and the expired tax on tubes and tires was not significant compared with the revenues generated by the other taxes. From fiscal year 1971 through 1983, the trust fund received \$13.2 billion in tax receipts. Of that total, \$15.8 million (0.1 percent) was obtained from the tire and tube taxes; \$222.6 million (1.7 percent) was obtained from the registration tax.

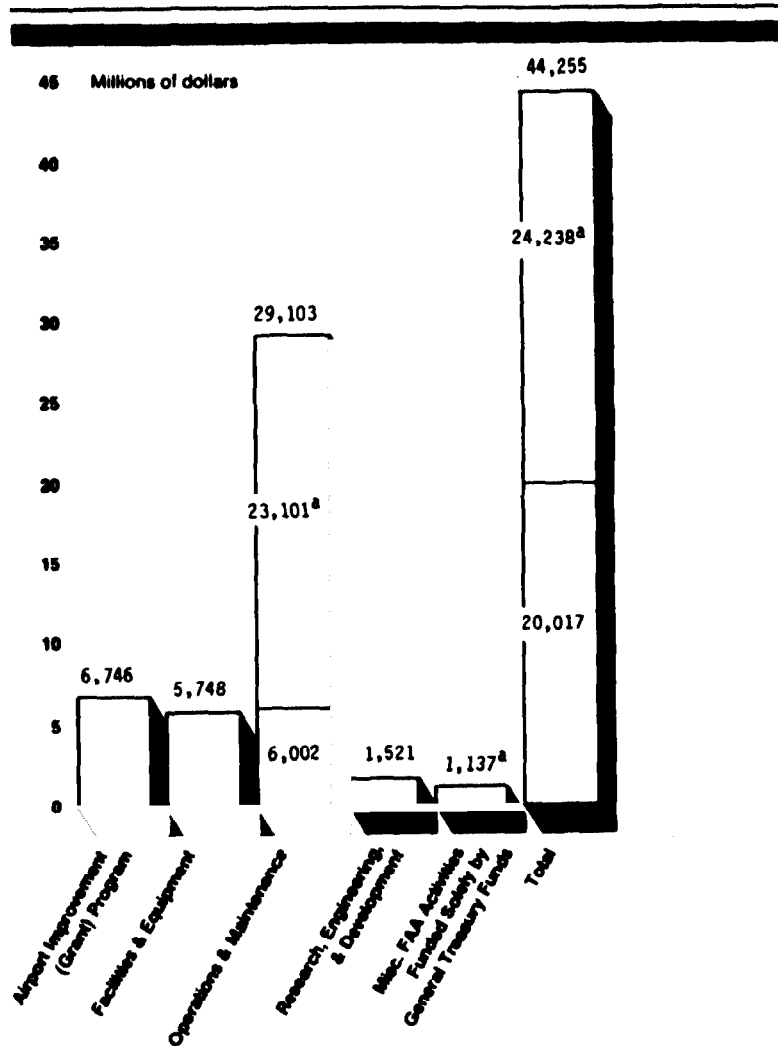


## TRUST FUND EXPENDITURES 1971-1985

--Historical Overview--

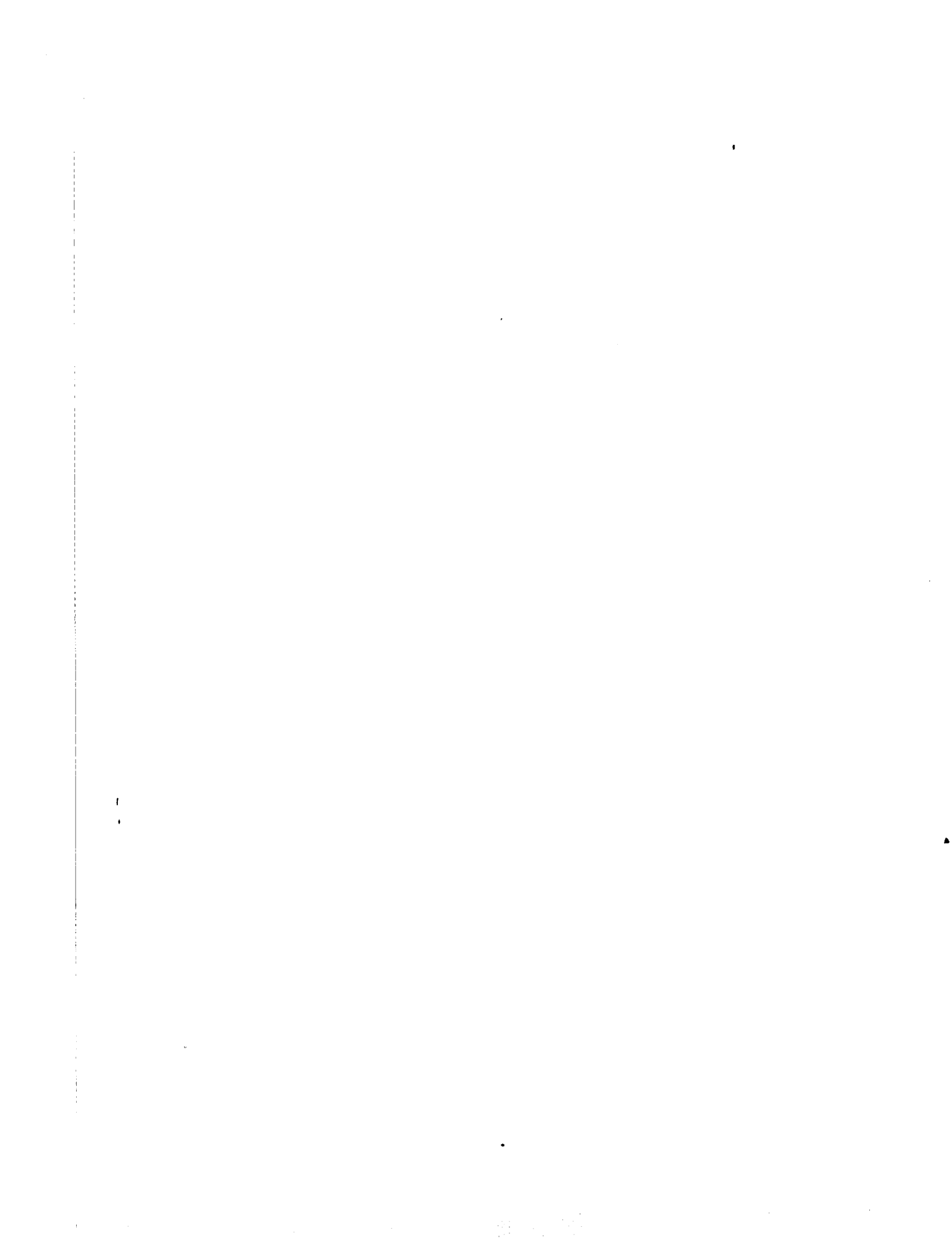
**FROM 1971 THROUGH 1985 THE TRUST FUND FINANCED AN AVERAGE OF ABOUT 45 PERCENT OF FAA'S TOTAL BUDGET (ABOUT 21 PERCENT OF FAA'S OPERATIONS AND MAINTENANCE COSTS WERE FINANCED BY THE TRUST FUND DURING THIS PERIOD)**

**Fig. 5: Trust Fund Financing of FAA Budget, 1971-1985**



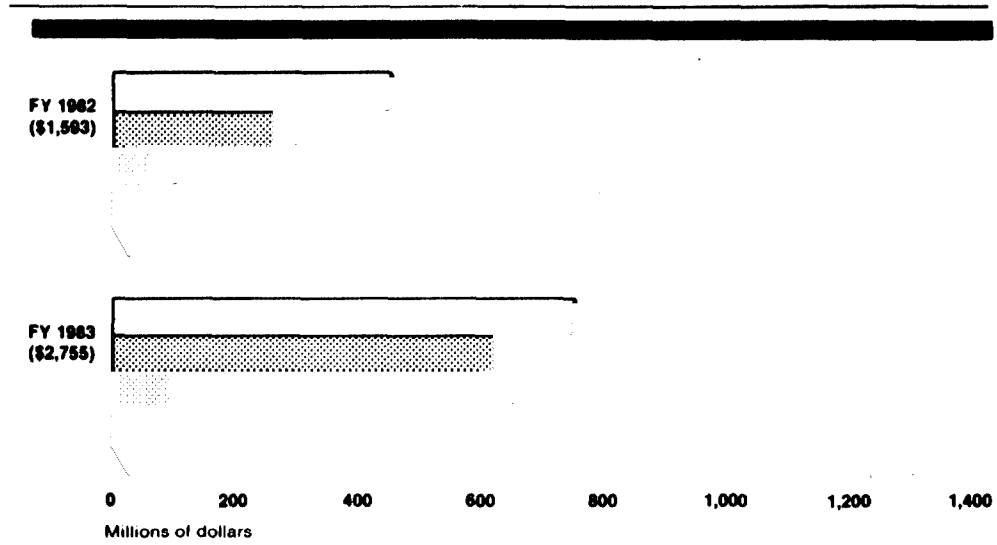
\*Treasury General Fund Expenditures

FY 1971-1985: Trust fund financed about 45% of FAA's total budget  
 FY 1985 only: Trust fund financed about 70% of FAA's total budget

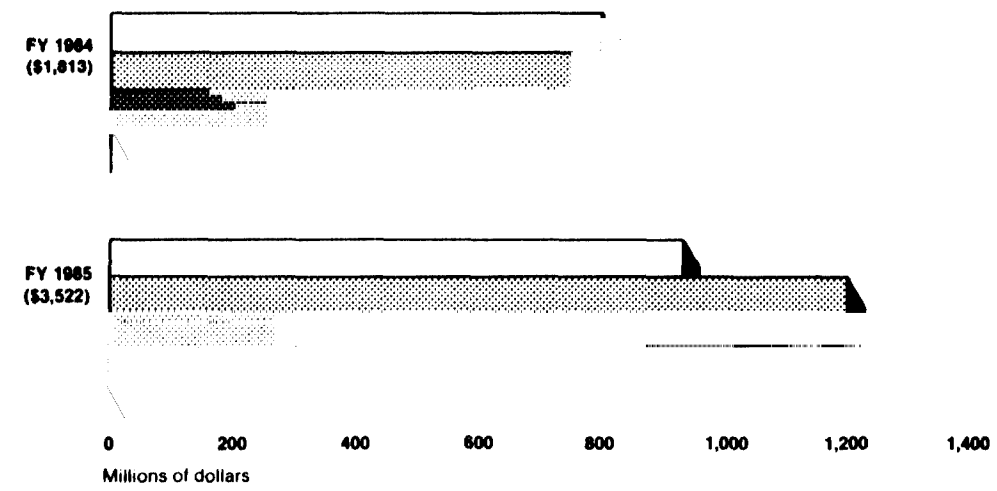


**TRUST FUNDS APPROPRIATED, BY PURPOSE  
1982-1985**

**Fig. 6: Trust Funds Appropriated, by Purpose, 1982-1985**



Note: National Airspace System plan appropriations primarily consist of facilities and equipment and research, engineering, and development.



- Airport Improvement Program
- Facilities and Equipment
- Research, Engineering, and Development
- Operations and Maintenance

Trust funds are used for both capital projects and operations and maintenance

Trust funds are used to finance two major FAA programs. One, the Airport Improvement Program, makes grants available to eligible airports for airport system planning, construction, improvement, and repair. The other, the Airway Improvement Program, makes monies available to FAA to construct, install, operate, and maintain an air navigation system for civil and military aircraft. Trust funds used for the Airway Improvement Program are appropriated into three separate accounts:

- facilities and equipment, which includes the cost of acquiring, establishing, and improving air navigation and experimental facilities;
- research, engineering, and development, which includes costs to improve the national air traffic control system, increase its productivity and capacity, and increase controller efficiency; and
- operations and maintenance expenses of air navigation facilities, including salaries for and training of air traffic controllers and safety inspectors.

The facilities and equipment appropriation purchases such items as radars, precision landing systems, and weather dissemination systems. Research, engineering, and development funds are spent in the areas of research and development of advanced computers, navigation, aviation weather, aviation medicine, aviation safety, and the environment.

Since 1981, the level of trust funds spent under the Airway Improvement Program for facilities and equipment and research, engineering, and development has been guided by FAA's National Airspace System (NAS) plan. The NAS plan, which was introduced in December 1981, is a comprehensive initiative to modernize, automate, and consolidate the current airway system. For example, FAA plans to consolidate all en route centers and 188 terminal facilities into fewer than 30 major air traffic control facilities by the end of the century.

Including the fiscal year 1986 appropriation, about \$4.8 billion has been appropriated for projects included in the plan. Although the total cost of the NAS plan is estimated to be about \$11.7 billion, this cost figure could change because the plan is not static--the plan currently contains over 90 separate projects and, since 1981, the number of projects making up the plan from year to year has varied and the scope of several projects has been adjusted.

Trust funds financed about 70 percent of FAA's total budget in fiscal year 1985. This percentage is much higher than the annual average of 45 percent during fiscal years 1971 through

fiscal year 1985, inclusive. Most of the FAA budget is made up of operations and maintenance costs--about 66 percent of FAA's total budget between 1971 and 1985. Therefore, in those years where trust funds have paid a higher percentage of operations and maintenance costs, their contribution to the total budget has been appreciably higher. From 1971 through 1985 trust funds financed about 20 percent of FAA's operations and maintenance costs (for fiscal year 1985 that percentage increased to about 43 percent). For a period of years during the mid-1970's, trust funds were not used to finance any FAA operations and maintenance costs. About 58 percent of the trust funds spent from fiscal years 1971 through 1985 for operations and maintenance were spent in five fiscal years--specifically, from 1981 through 1985.

Currently, the maximum allowable amount of trust funds that can be used to pay FAA's operations and maintenance costs is determined through the use of a formula specified in the 1982 Airport and Airway Improvement Act. The formula was set up to provide an incentive to fully fund the authorized amounts for the airport and airway development programs. The closer the appropriations for these programs match the amount authorized, the greater the amount that can be used for operations and maintenance. As the difference between the amounts authorized and appropriated for airport and airway development programs increases, the application of the formula will result in a lesser amount that can be used for operations and maintenance.

Since the amount of the difference between monies authorized and appropriated for the Airport and Airway Improvement Programs has varied over the past few years, the formula has led to different annual funding patterns for operations and maintenance. In fiscal year 1983, about \$1.3 billion in trust funds was appropriated for FAA's operations and maintenance; in fiscal year 1985 about \$1.1 billion was appropriated for that purpose. However, in fiscal year 1984, no trust funds were used to finance operations and maintenance because of a large difference between the amounts authorized and appropriated for the airway improvement program.



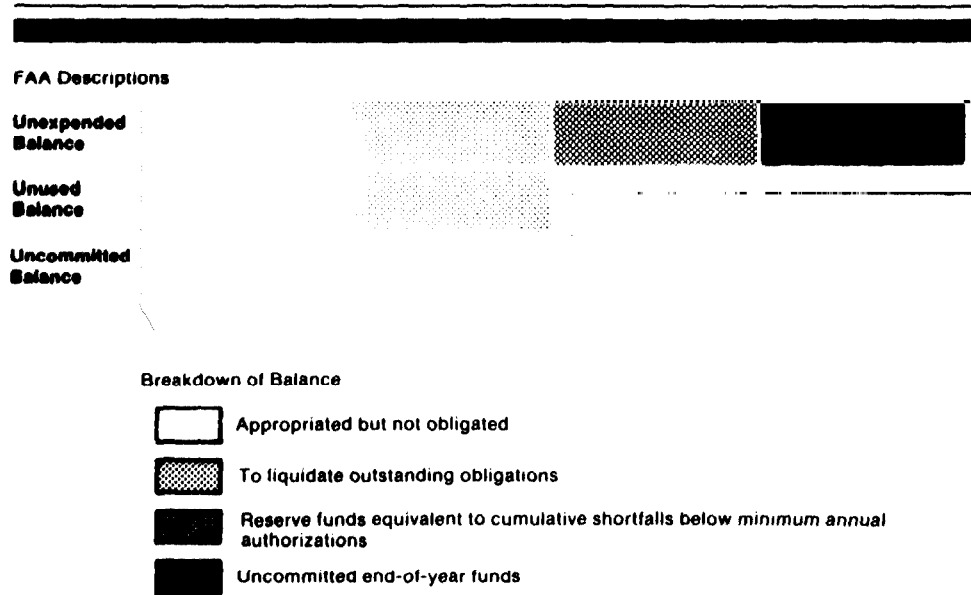


**TRUST FUND BALANCE**

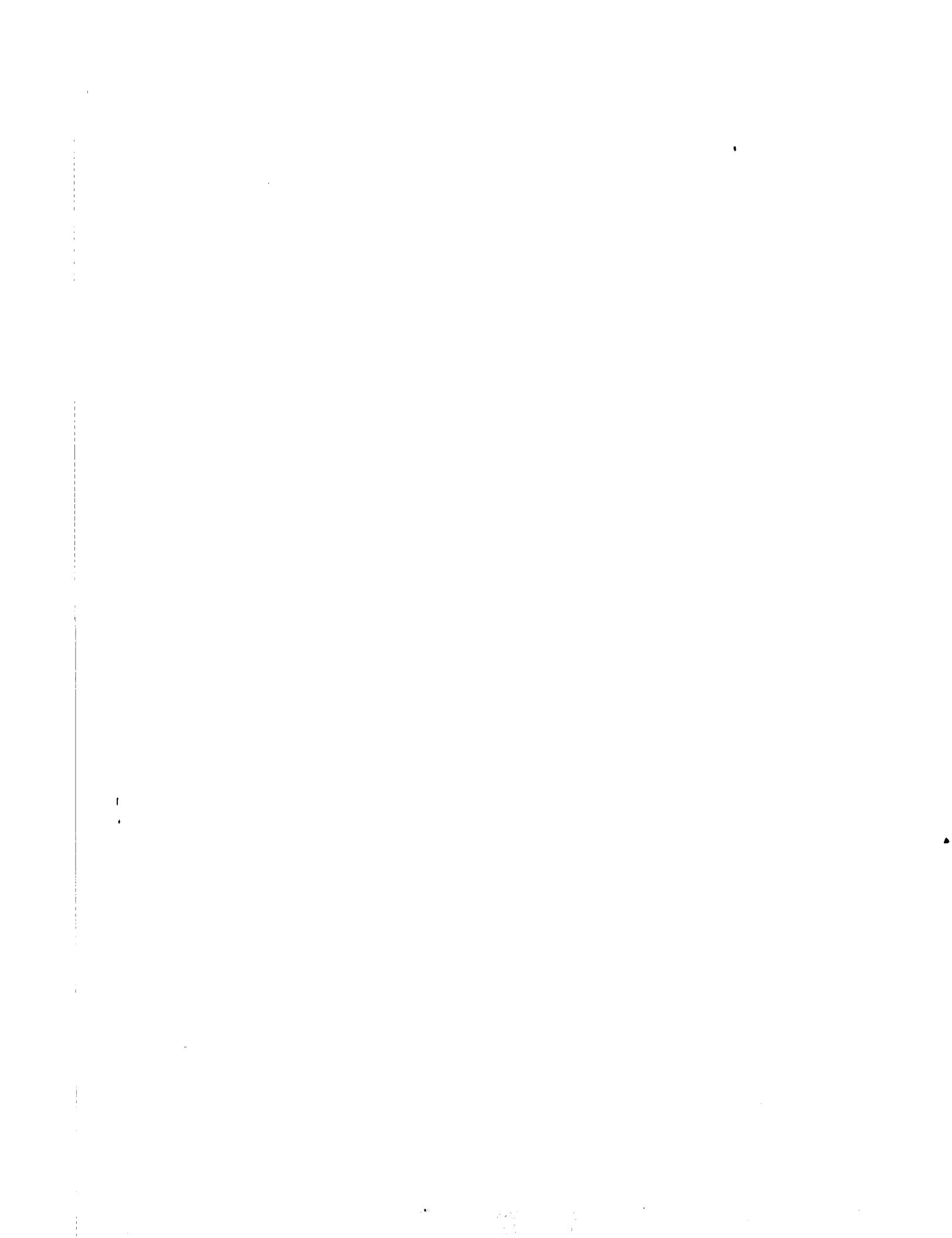
--Historical Overview--

**THE BALANCE IN THE TRUST FUND IS IDENTIFIED IN VARIOUS WAYS BY FAA:**

Fig. 7: FAA Breakdown of Fund Balance

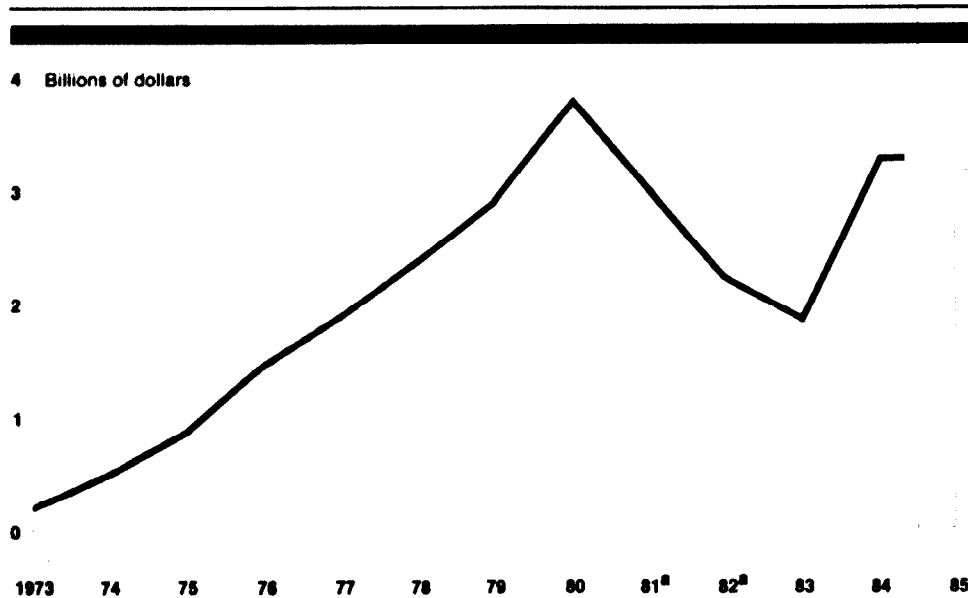


**UNUSED BALANCE REPRESENTS BALANCE OF MONEY REMAINING IN THE FUND THAT HAS NOT BEEN APPROPRIATED AND THUS CANNOT BE OBLIGATED**



**FOR FISCAL YEARS 1973 THROUGH 1985, REVENUES GENERALLY HAVE EXCEEDED EXPENDITURE AND APPROPRIATION LEVELS; THEREFORE, THE FUND'S UNUSED BALANCE HAS GENERALLY INCREASED**

**Fig. 8: Trust Fund Balances, 1973-1985**



<sup>a</sup>Fiscal year 1981 and 1982 balances decreased because authority to deposit excise taxes in fund expired but FAA programs continued to be financed from the fund.

Trust fund balance identified  
in various ways

FAA uses three definitions for the monies remaining in the trust fund--the unexpended, unused, and uncommitted balances. These balances include one or more of the four categories of monies remaining in the fund.

- Appropriated but not obligated. Monies in the fund to match amounts appropriated for a specific purpose but not yet contracted for by FAA. FAA plans to spend this money and needs no further congressional approval to do so. (\$2.8 billion at the end of fiscal year 1985.)
- To liquidate outstanding obligations. Monies already obligated to be paid but not yet due. (\$1.4 billion at the end of fiscal year 1985.)
- Reserve funds equivalent to cumulative shortfalls below minimum annual authorizations. Monies equal to the difference between trust funds authorized to be spent in a given fiscal year and the trust funds actually appropriated. (\$1.2 billion at the end of fiscal year 1985.)
- Uncommitted funds. Monies not included in any of the above three categories. (\$2 billion at the end of fiscal year 1985.)

The monies involved in all four categories are called the fund's unexpended balance. The "reserve funds" and "uncommitted funds" make up the "unused balance." The "uncommitted end-of-year funds" make up the "uncommitted balance."

The unused balance represents the balance of money remaining in the fund that has not been appropriated and which, without an appropriation, FAA cannot obligate or otherwise commit for expenditure. For this reason we consider the unused balance the best measure of available funds in the trust fund. It is the sum represented by the unused balance that could be referred to as the trust fund "surplus." The term "surplus" can mean either the amount that remains when a need is satisfied or an excess of receipts over disbursements. In the context of the trust fund, it is clear that receipts have exceeded expenditures, but differences of opinion exist within the Congress and the aviation community as to whether trust fund spending levels have been adequate to meet the needs of aviation. It was not within the scope of our review to make this latter determination. Therefore, to avoid the definitional ambiguities associated with the characterization "surplus," this report uses the term "unused balance."

Since fiscal year 1973, the fund's unused balance has increased, except for fiscal years 1981 through 1983. In fiscal years 1981-1982 the authority to deposit excise taxes into the

trust fund expired but FAA programs were being financed from the fund. Immediately before the expiration, the unused balance had grown to its highest point to date--\$3.7 billion. In fiscal year 1985, the unused balance leveled off at \$3.2 billion, primarily because operations and maintenance and facilities and equipment appropriations increased substantially.

Overall, the current unused balance is the result of excise tax receipts and interest income exceeding funding levels. When the Congress set the excise tax rates in 1982, it did so at rates it believed would generate sufficient revenues to finance its estimates at the time of airway and airport improvement program needs, and that portion of FAA's operations and maintenance costs that could legally be covered by the trust fund. It anticipated, on the basis of FAA projections, that the excise tax and interest income would generate approximately \$18.8 billion for fiscal years 1982-87. To date, actual revenues are, for the most part, keeping pace with the projections.

Some believe that inadequate funding levels have been the cause of the current size of the unused balance. The Air Transport Association (ATA) has stated that aviation funding problems are attributable to bureaucratic inefficiency, especially in systems procurement, and to overall federal budgetary considerations that have held down fund spending. ATA has proposed a quasi-independent, federally-chartered corporation that it believes would (1) recognize that aviation users are entitled to receive services they pay for and (2) acquire and use needed resources in a more efficient and timely manner.

There are other reasons why spending, particularly on NAS plan facilities and equipment procurements, have not proceeded as rapidly as the aviation community may have liked. Many major components of the NAS plan required the development of new technologies. The advanced automation system, microwave landing system, and terminal Doppler radar are all new systems requiring extensive development and testing.

More time than was originally planned for was required to properly develop and test system components. This is responsible at least in part for slippage in NAS plan projects. For example, our May 1984 report<sup>2</sup> on FAA's plans for major systems acquisitions found that, because extensive unanticipated changes were necessary to transfer the software to its host computer, FAA should do more thorough testing to assure that other major software problems were not present. We also reported that FAA may be proceeding with its advanced automation system before it fully defines the system's proper functional requirements and design specifications. The advanced automation system is a total automation system for handling the capacity of the projected air traffic load through the 1990's.

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<sup>2</sup>Interim Observations on FAA's Plans for Major Systems Acquisitions (GAO/IMTEC-84-14, May 4, 1984).

In June 1985 we issued another report<sup>3</sup> on the host computer in which we concluded that (1) vendor testing prior to acquisition of the host computer did not adequately simulate present or future operational requirements and (2) documentation and technical oversight of performance testing were inadequate.

In a July 1985 report,<sup>4</sup> we explained that, as part of its NAS plan, FAA plans to install over 300 automated weather observing systems (AWOSs) at commercial airports across the country. However, we found that the AWOSs did not meet FAA's operational requirements for four weather elements and should not be installed at commercial airports until the system meets these requirements.

The growth of the unused balance also has been significantly affected by the level of fund expenditures for operations and maintenance (O&M). Since funds requested and approved for the Airway Development Program and the Airport Improvement Grant Program were less than authorized, the application of the operations and maintenance formula resulted in a lesser amount of O&M costs being financed by the fund than would otherwise have been the case. About \$1.6 billion more would have been spent on O&M from the fund during fiscal years 1982-1985 had funding for the Airport Improvement Grant and Airway Development Programs been approved at the maximum levels authorized.

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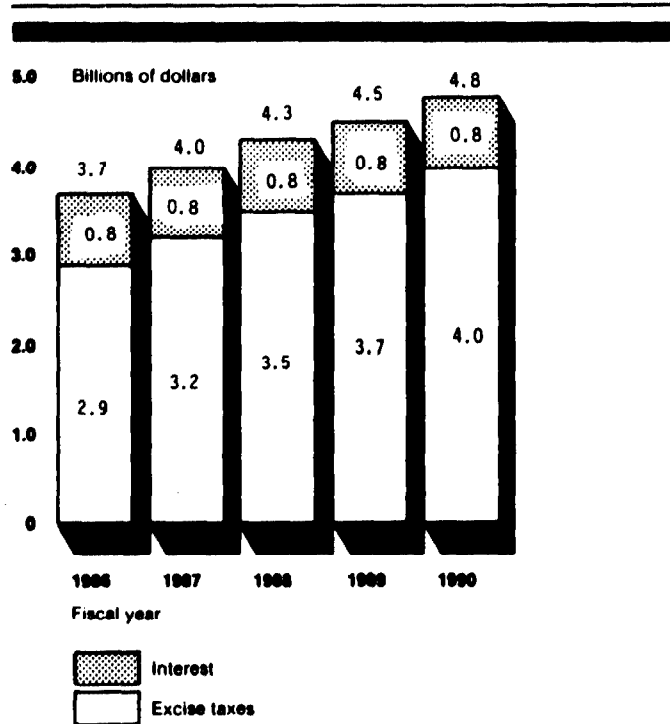
<sup>3</sup>Federal Aviation Administration's Host Computer: More Realistic Performance Tests Needed Before Production Begins (GAO/IMTEC-85-10, June 6, 1985).

<sup>4</sup>Installation of Automated Weather Observing Systems by FAA at Commercial Airports Is Not Justified (GAO/RCED-85-78, July 29, 1985).

**PROJECTIONS: 1986-1990  
REVENUES**

**TRUST FUND REVENUES, INCLUDING INTEREST, ARE PROJECTED<sup>a</sup>  
BY FAA TO INCREASE ANNUALLY THROUGH FISCAL YEAR 1990.**

**Fig. 9: Trust Fund Revenue Projections, 1986-1990**



<sup>a</sup>These projections were computed using current excise tax rates and an assumption that all excise tax receipts would be credited to the trust fund, together with interest on unspent trust funds, consistent with current practice. However, the excise taxes will expire entirely unless reauthorized by the end of calendar year 1987. Interest income projected for 1986-87 is applied to each year from 1988 through 1990 because FAA does not project interest revenue past fiscal year 1987.



FAA estimates that revenues  
will continue to grow

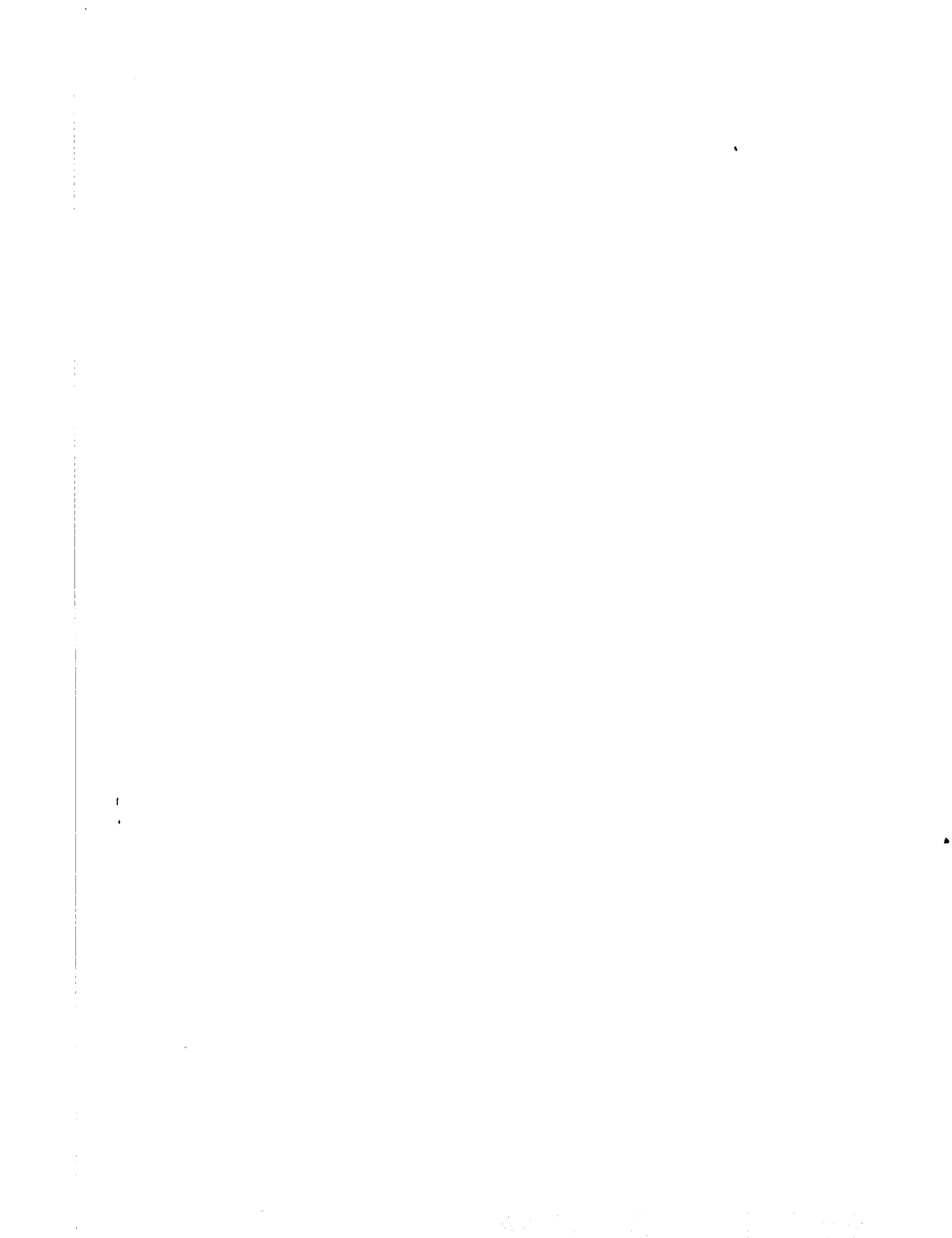
In January 1986 FAA projected trust fund revenues through fiscal year 1990 if excise tax rates remain as they were in 1985. FAA projected that trust fund revenues would grow throughout the period. The projections were based on OMB's projections and its economic assumptions as of December 1985.

FAA's projections for excise tax receipts have been reasonably accurate, especially those for the fiscal year following the projection. For example, its 1-year projection for fiscal years 1983 and 1984 revenues, including interest, were less than 5 percent under actuals. It should be recognized that FAA's revenue projections are predicated on the assumption that air travel demand will continue to grow. They are also sensitive to other related factors, such as the price of airline tickets. The ticket tax, for example, is computed on the basis of a percentage of the airfare. When airfares decrease or increase, there is a corresponding influence on the amount of tax revenue per ticket and a potential for a change in the number of airline trips that people choose to make. The fuel tax is a flat price per gallon and does not fluctuate according to the price of fuel, but the consumption of fuel--and hence the total fuel tax revenues received--will be sensitive to increases or decreases in the level of general aviation flying time. The potentialities for future air traffic demand are beyond the scope of this report, but nonetheless should be kept in mind in assessing aviation system financing.

As for fund interest income, FAA does not project interest revenue past fiscal year 1987 because it has requested that Congress pass legislation waiving interest payments from the general fund to the trust fund. It is difficult to estimate the dollar amount of interest income that would accrue to the trust fund if such legislation were not enacted. The amount of trust fund monies used to purchase Treasury securities is linked to the fund's unexpended balance, which is larger than the unused balance. (See page 32.) The unexpended balance includes not only the unused balance but appropriated monies that FAA has not actually spent. We do not know what period of time it will take FAA to obligate appropriated funds and then liquidate those obligations through fiscal year 1990, thus we cannot accurately forecast how much money will be available to purchase Treasury securities.

However, for purposes of this analysis, we have used \$790 million--FAA's fiscal year 1987 projected interest revenue--as interest revenue for each year through fiscal year 1990. The \$790 million interest revenue applied each year through fiscal year 1990 does not consider factors that would increase interest revenues, such as the increase in tax revenues projected by FAA and a considerably larger balance on which the interest would be computed. In this respect, the \$790 million results in a

conservative approach to total growth throughout the period. The influence of these factors will be mitigated, however, if interest rates continue to drop and remain low for a sustained period of time.



**PROJECTIONS: 1986-1990  
EXPENDITURES**

**IF THE CONGRESS MAKES NO MAJOR LEGISLATIVE  
CHANGES AFFECTING TRUST FUND PROGRAMS,  
TRUST FUND EXPENDITURES ARE NOT PROJECTED TO  
INCREASE SIGNIFICANTLY DURING THE PERIOD**

Table 1: Trust Fund Expenditure Projections, 1986-1990

Fiscal year	Total	F&E	RE&D	AIP	O&M
	-----	-----	---in billions---	-----	-----
1985	\$ 3.522	\$1.200	\$0.277	\$0.935	\$1.110
1986	2.375	0.865	0.198	0.885	0.427
1987	2.079	0.956	0.134	0.712	0.277
1988	2.461	1.164	0.127	0.500	0.670 <sup>a</sup>
1989	2.461	1.164	0.127	0.500	0.670 <sup>a</sup>
1990	2.461	1.164	0.127	0.500	0.670 <sup>a</sup>

<sup>a</sup>In computing O&M figures for fiscal years 1988-1990, we used projected AIP figures for those years and assumed that the Congress appropriated all F&E monies that were authorized. If AIP appropriations are less than the projected amounts or if F&E appropriations are less than the authorized amounts, the maximum allowable amount for O&M would be less than \$0.670 billion.

Fiscal years 1986-1990 do not reflect the possible effects of the Balanced Budget and Emergency Deficit Control Act of 1985 on expenditures.

FAA projected trust fund expenditures  
do not show significant increases

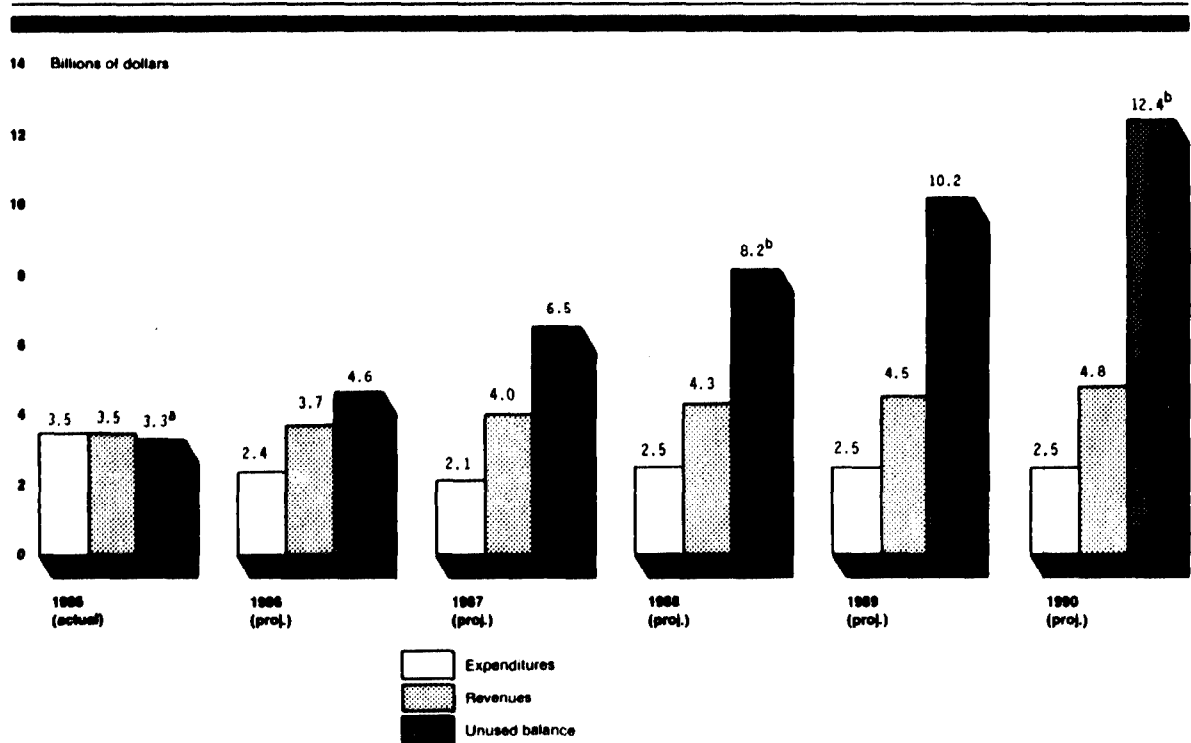
The figures contained in the table on page 42 represent our analysis of FAA's projected expenditures for fiscal years 1986-1990. Our analysis was based on the assumption that no changes in existing law would occur through fiscal year 1990 so that we could portray what would occur if the Congress reauthorized the trust fund and excise taxes with no change. According to our analysis of FAA's projected trust fund expenditures for fiscal years 1986 through 1990, annual expenditures for what can properly be funded under existing law will either stay the same or decrease in comparison with fiscal year 1985.

The analysis for fiscal years 1986 through 1990 does not include the possible impact of the Balanced Budget and Emergency Deficit Control Act of 1985. The act could result in reductions in fund outlays. (The act does not affect the crediting of excise tax receipts and interest income to the trust fund account.) If reductions called for under the act occur, fiscal year 1986 expenditure totals would be 4.3 percent less than it otherwise would have been. According to administration officials, any impact the act may have on FAA's projected expenditures for fiscal year 1987 should be small. They believe that the budget as proposed would satisfy the deficit reduction targets for that year, thus making it unnecessary to invoke the expenditure reduction requirements of the act. The act's impact for fiscal years 1988-1990 cannot be estimated at this time.

**PROJECTIONS: 1986-1990  
UNUSED BALANCE**

**OUR ANALYSIS PROJECTS THAT THE TRUST FUND'S UNUSED BALANCE WILL GROW THROUGHOUT THE PERIOD TO ABOUT \$12.4 BILLION BY THE END OF FISCAL YEAR 1990**

Fig. 10: Trust Fund Balance Projections, 1986-1990



<sup>a</sup>Includes \$3.3 billion unused balance at end of FY 1984.

<sup>b</sup>Unused balance does not add due to rounding.

This analysis does not take into account the potential effects of the Balanced Budget and Emergency Deficit Control Act of 1985.

Unused balance will continue  
to grow through fiscal year 1990

According to FAA's projections and our analysis, the trust fund's unused balance will continue to grow throughout the period and reach \$12.4 billion by the end of fiscal year 1990. This assumes that (1) the trust fund, the excise taxes, the authority to deposit these taxes in the fund, and the formula for computing the fund's share of O&M expenditures are reauthorized without change and (2) all monies requested are appropriated.

The extent to which the Balanced Budget and Emergency Deficit Control Act of 1985 causes reductions in fund outlays may cause further increases in the fund's unused balance. The amount by which fund expenditures and the unused balance would be affected by this legislation for fiscal years 1987-1990 are subject to a set of variables that are not known at this time. One variable is whether the legislation will ultimately be held to be constitutional. The decision of a three-judge court setting aside a key part of the legislation has been stayed, pending a decision by the Supreme Court. Other variables include the amount of the deficit for fiscal years 1987-1990, the amount by which the enacted budget for those years exceeds the 1985 act's deficit targets, and the amount of revenue the government receives.

If the act is sustained by the Supreme Court, its impact on fund expenditures and the unused balance for fiscal year 1986 is reasonably clear. Fund expenditures will be reduced by about 4.3 percent (about \$102 million). This would further increase the unused balance by a corresponding amount, and interest would accrue on the unspent money.

**OPTIONS TO DECREASE UNUSED BALANCE**

**OPTIONS FALL UNDER TWO GENERAL CATEGORIES:**

- INCREASE TRUST FUND EXPENDITURES, OR**
- DECREASE TRUST FUND REVENUES**

**THE ACCEPTABILITY OF THE INDIVIDUAL OPTIONS WITHIN THESE TWO GENERAL CATEGORIES IS LIKELY TO DEPEND UPON ONE'S VIEW OF THE TRUST FUND'S PURPOSE, HOW WELL AVIATION USER NEEDS ARE BEING MET BY THE FUND, AND THE PURPOSE OF THE AVIATION EXCISE TAXES**

- SHOULD ALL EXCISE TAX RECEIPTS BE DEDICATED FOR USE BY AVIATION-RELATED PROGRAMS AND ACTIVITIES OR SHOULD A PORTION OF THESE RECEIPTS BE MADE PERMANENTLY AVAILABLE TO DEFRAY THE COSTS OF OTHER FEDERAL PROGRAMS AND ACTIVITIES?**

- SHOULD THE MISSION OR PURPOSE OF THE TRUST FUND REMAIN THE SAME OR SHOULD IT BE EXPANDED?**

**WHILE MAKING NO RECOMMENDATIONS ON THESE POLICY ISSUES OR THE INDIVIDUAL OPTIONS DISCUSSED HEREIN, GAO DOES PROVIDE THE CONGRESS WITH A FRAMEWORK WITHIN WHICH REAUTHORIZATION DECISIONS CAN BE MADE.**



## Framework for considering options

A threshold decision facing the Congress is whether to maintain the status quo--that is, whether the fund and the tax rates should be reauthorized without change. On the basis of projected revenue and expenditure levels, retaining the status quo would result in an unused balance of about \$12.4 billion at the beginning of fiscal year 1991. With such a potential balance, it would appear that the aviation industry and its users would be taxed now and throughout the latter part of the 1980's to cover aviation costs that could occur in the post-1990 period. However, we could not find any projections indicating that revenues to be collected during the post-1990 period would be insufficient to cover the costs then being incurred, much less an \$12.4 billion shortfall.

If the Congress desires to reduce the size of the current and projected unused balance, various options are available for doing so. These options are identified in subsequent sections of this report and fall under two general categories: (1) increasing fund expenditures and/or (2) decreasing fund revenues. Judgments about the most appropriate option or combination of options to pursue for addressing the unused balance issue are likely to be strongly influenced by one's view of the fund's mission and the purpose of the aviation excise taxes.

For example, if the aviation excise taxes are viewed solely as a vehicle for funding aviation needs, then a matching of revenues with aviation expenditure needs, together with a reasonable contingency reserve to cover unforeseen circumstances, would seem reasonable. On the other hand, a different approach would be necessary if, as a matter of policy, aviation excise taxes are viewed as having a secondary purpose, such as a legitimate source of federal revenue appropriately available for the direct financing of federal programs that are not related to aviation.

These issues are not new to the Congress. In recent years, they have been the subject of discussion, especially in connection with the federal deficit and the question of whether current and projected fund expenditures are keeping pace with the needs the fund was set up to meet. The relationship to the deficit is that the use of excise taxes to fund FAA programs replaces the need to use general funds for that purpose. This produces a smaller unified budget deficit than would result if the excise taxes were lowered or allowed to expire, and the revenue lost thereby not replaced with money from some other revenue source. Additionally, the fact that annual fund revenues normally exceed annual fund expenditures has a positive impact on the federal deficit.

In 1985, the Congress considered but did not enact a proposal that would have taken the trust fund "off-budget." A similar proposal has been introduced in this session of Congress. The budget activities for an off-budget entity or account are not reflected either in budget authority or budget outlay totals.

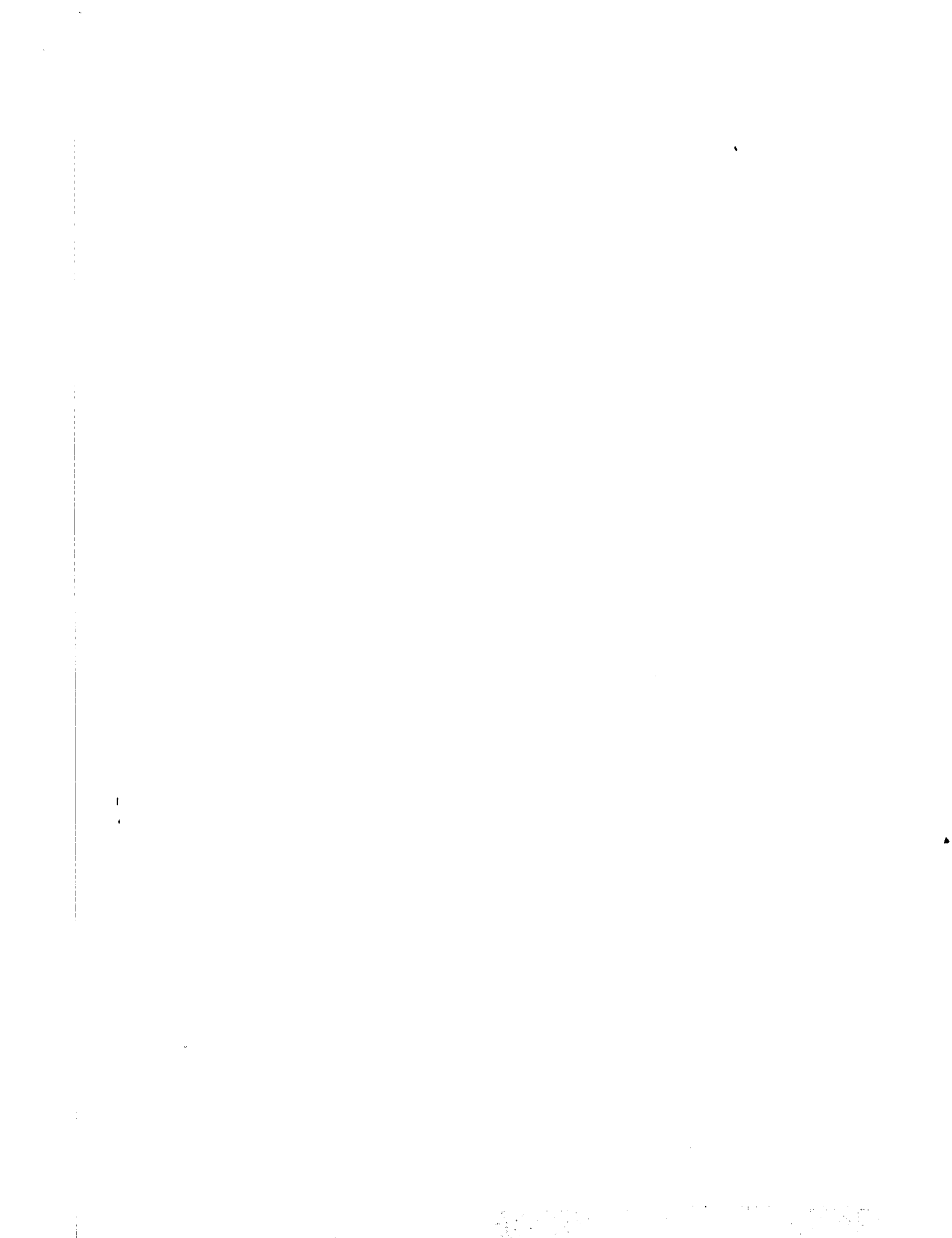
Proponents of the proposal believe this is appropriate because the trust fund is supported by user taxes and, in their view, decisions about the amount of trust fund expenditures should be made without regard to the consequences for the deficit. Proponents feel that retention of the fund in the budget simply makes the deficit appear smaller. However, others contend that taking the trust fund off budget would not be appropriate. If the trust fund were off budget, the budget would present even less of a true measure of federal fiscal activity and portray less of the true scope of the possible expenditure and revenue adjustments the Congress could make to alter the fiscal impact of the federal government. We have long been concerned about the effect of taking entities off budget on the integrity of the unified budget and the discipline of the budget process. It is for these reasons that we have recommended against taking the trust fund off budget.<sup>5</sup>

Another proposal that is now pending in the Congress would, if enacted, take the trust fund off budget and exempt FAA, together with certain other federal activities, from the Balanced Budget and Emergency Deficit Control Act of 1985. The sponsors of this legislation believe that adequate funding of the programs proposed to be exempted is in the public's best interest and, in the case of FAA, essential from the standpoint of air safety. The Congress will have to balance these concerns with the priority it attaches to reducing the deficit and its views on how best to achieve this end.

However, regardless of the fund's budget status or the applicability of the 1985 act, the size of the fund's unused balance and the various options for addressing that balance will remain as issues. Of the options available, several would have an impact on the deficit, while others would have no net effect.

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<sup>5</sup>Letter dated October 8, 1985, from the Comptroller General of the United States to the Speaker of the House of Representatives.



**OPTIONS TO DECREASE UNUSED BALANCE**

**SPECIFIC OPTIONS HAVE VARIOUS EFFECTS ON TRUST FUND AND GOVERNMENT FINANCES**

**THE OPTIONS ARE NOT MUTUALLY EXCLUSIVE;  
THEY COULD BE DONE IN COMBINATION**

**OPTIONS THAT HAVE NEUTRAL EFFECT ON NET FEDERAL OUTLAYS OR REVENUES**

**--INCREASE TRUST FUND EXPENDITURES BY:**

- 1) USING TRUST FUNDS TO PAY A LARGER PERCENTAGE OF O&M, OR
- 2) EXPANDING TRUST FUND COVERAGE TO OTHER EXISTING FAA OR AVIATION-RELATED PROGRAMS

**--DECREASE TRUST FUND REVENUES BY:**

- 1) PUTTING PART OF EXCISE TAX RECEIPTS IN GENERAL FUND WITHOUT A CORRESPONDING CREDIT TO TRUST FUND, OR
- 2) WAIVING INTEREST PAYMENTS TO THE TRUST FUND

**OPTIONS THAT HAVE POSITIVE OR NEGATIVE IMPACT ON NET FEDERAL OUTLAYS OR REVENUES**

**--INCREASE TRUST FUND EXPENDITURES BY:**

- 1) INCREASING AIRWAY IMPROVEMENT AND/OR AIRPORT (GRANT) IMPROVEMENT PROGRAM EXPENDITURES

**--DECREASE TRUST FUND REVENUES BY:**

- 1) DECREASING EXCISE TAX RATES, OR
- 2) ALLOWING TAXES TO TEMPORARILY EXPIRE

Options available to decrease  
the trust fund's unused balance

The remainder of this report identifies the various options available to decrease the current and projected trust fund unused balance and discusses the issues associated with each option and their general impact on the fund and overall federal finances.

Specifically, these options include:

Increasing trust fund expenditures

- Pay a larger share of FAA's O&M with trust funds
- Expand trust fund coverage to other existing FAA programs and aviation-related activities
- Increase airway improvement program expenditures
- Increase airport improvement grant program expenditures

Decreasing trust fund revenues

- Decrease excise tax rates or allow some or all of the taxes to expire for a temporary period
- Waive interest payments to the trust fund
- Put part of excise tax receipts in general fund with no corresponding credit to the trust fund

The options are not mutually exclusive; they could be done in combination, leaving a contingency reserve of, for example, \$1 billion or \$2 billion. For example, the Congress could increase expenditures for the airway improvement program and pay a larger percentage of FAA's operations and maintenance costs from the trust fund. It could at the same time waive interest payments to the trust fund. Standing alone, few of the options would be sufficient to consume the projected \$12.4 billion unused balance.

**OPTIONS TO DECREASE UNUSED BALANCE**

**FINANCE MORE OF FAA'S OPERATIONS AND MAINTENANCE  
OR EXPAND TRUST FUND COVERAGE**

BACKGROUND. BETWEEN FISCAL YEARS 1980-1985 TRUST FUNDS FINANCED AN AVERAGE OF ABOUT 49 PERCENT OF FAA'S ENTIRE BUDGET.

OPTION IMPACT. INCREASING THE TRUST FUND'S SHARE OF O&M TO 75 PERCENT WOULD INCREASE TRUST FUND EXPENDITURES FOR O&M BY ABOUT \$4.4 BILLION FROM FISCAL YEAR 1988 THROUGH FISCAL YEAR 1990 AND DECREASE INTEREST REVENUES BY ABOUT \$0.5 BILLION. THUS THE PROJECTED UNUSED BALANCE WOULD BE ABOUT \$7.5 BILLION BY THE END OF FISCAL YEAR 1990. THE FUND WOULD RECEIVE LESS INTEREST INCOME BECAUSE IT WOULD BE SPENDING A GREATER PORTION OF ITS TAX REVENUES.

OTHER THAN O&M, THERE ARE FEW ITEMS LEFT IN THE FAA BUDGET THAT ARE NOT ALREADY FULLY FUNDED BY THE TRUST FUND. THE IMPACT ON THE UNUSED BALANCE OF EXPANDING TRUST FUND COVERAGE TO THESE MISCELLANEOUS ITEMS WOULD NOT BE SIGNIFICANT.

PRIMARY ISSUES. SHOULD FUND O&M OUTLAYS BE INCREASED TO THE POINT THAT MOST FUND DISBURSEMENTS COULD BE FOR O&M RATHER THAN CAPITAL IMPROVEMENT PROJECTS? SHOULD TRUST FUNDS BE USED TO FINANCE FEDERAL AVIATION ACTIVITIES NOT CURRENTLY COVERED BY THE TRUST FUND?

UNUSED BALANCE, END OF FISCAL YEAR 1990  
(INCLUDES ADJUSTMENT FOR CHANGES IN  
INTEREST REVENUES)

\$12.4 BILLION	IF NO CHANGES MADE
\$7.5 BILLION	75 PERCENT OF O&M FROM TRUST FUND
\$5.0 BILLION	100 PERCENT OF O&M FROM TRUST FUND

Unused balance could be reduced  
by using trust funds to pay  
additional share of O&M

Trust funds can be used to finance a portion of FAA's O&M costs. However, the authorization to finance a portion of these costs indicated that this financing was to be secondary to the objective of funding capital improvements. The current authorizing legislation contains a formula for computing the maximum allowable amount of trust funds that can be used for O&M. (See page 30.) For example, according to the authorizing legislation, the statutory formula to compute the maximum allowable O&M appropriation for fiscal year 1987 is computed by multiplying the airport improvement (grant) program appropriation by a factor of 1.34. However, if the appropriation for FAA's facilities and equipment is less than authorized, then the maximum allowable O&M that could be financed by the fund would be reduced by twice that difference. About 75 percent of FAA's O&M costs go toward personnel costs--including air traffic controllers and safety inspectors. Most of the remaining cost is made up of fixed costs such as rent, utilities, and operational communications.

One year after inception of the trust fund, the amount of trust funds used to finance O&M became an issue. During the second year of the fund, \$1 billion (about 72 percent) of fund expenditures for fiscal year 1972 were used to finance O&M. This level of funding, from a fund whose primary mission was to finance capital improvements, created considerable controversy, the result of which was that for the next 5 years, hardly any trust funds were used for O&M. Subsequently, trust funds were again appropriated to pay part of O&M costs, but not at levels approaching 72 percent of trust fund outlays.

Aviation organizations continue to be sensitive to the level of trust fund dollars spent for O&M. Most of the organizations have no difficulty with funding part of O&M costs but believe that additional trust funds should be used for capital improvements. Some organizations believe the O&M share paid by the trust fund should never be more than 50 percent because, in their view, paying more than 50 percent will change the mission of the fund from capital to operations. Other organizations believe 75 percent is proper because it would bring trust fund financing of the total FAA budget to 85 percent, which, according to FAA studies, would set the combined commercial and general aviation share of FAA financing roughly equal to their share of the benefits from FAA activities. These studies conclude that the other 15 percent are for activities benefiting the military.

Increased trust fund expenditures for O&M would decrease the projected unused balance. This option would not involve an increase in total federal expenditures; rather, it would represent a replacement of general funds with trust funds. General funds now pay the portion of O&M not covered by the trust fund. FAA and OMB favor this option and in April 1985 and again in the fiscal

year 1987 budget propose legislation to replace the formula with a requirement to pay 75 percent of FAA's annual O&M cost with trust funds. The administration selected 75 percent of O&M because when the amount of O&M financed at that percentage is added to projected capital expenditures, the trust fund would pay about 85 percent of the FAA budget.

According to FAA estimates, if 75 percent of O&M costs were financed from the trust fund, about \$6.4 billion in trust funds would be expended for that purpose from fiscal year 1988 through fiscal year 1990. On the other hand, if the current formula is reauthorized, about \$2 billion in trust funds would be expended for O&M through fiscal year 1990. The 75 percent option would increase expenditures and decrease the projected unused balance by about \$4.4 billion. The projected \$12.4 billion balance would thus be lowered to about \$8 billion. In addition, the fund would receive about \$0.5 billion less in interest revenue because it would be spending a greater portion of its tax revenues. This would further lower the unused balance to \$7.5 billion by the end of fiscal year 1990.

The Congress could decide to use the trust fund to finance all of FAA's O&M costs. This would necessitate an outlay of about \$8.5 billion from fiscal year 1988 through fiscal year 1990--or \$6.6 billion more than if the formula were reauthorized. Such action would result in an unused balance of about \$5.8 billion rather than the \$12.4 billion projected for the end of fiscal year 1990. Again, the balance would be lowered by a corresponding decrease in interest revenue of about \$0.8 billion, resulting in a \$5 billion unused balance at the end of fiscal year 1990.

In deciding whether an increase in funding O&M expenditures is a viable option, a key issue is the potential for a shift in the fund's primary mission and the balance that must be drawn between the impact the Congress believes such a shift might have on the priority given to funding needed capital improvements and the need to fund O&M. On the basis of our analysis of FAA's trust fund projections, funding 75 percent of O&M from trust funds would make this cost item higher than any other single trust fund expenditure--almost twice as much as currently projected airway improvement program capital expenditures. For example, in fiscal year 1987, about 54 percent of total trust fund expenditures would be for O&M if 75 percent of this cost item were paid from the fund. The option for covering all of FAA's O&M expenses with trust funds is almost certain to raise another issue, namely, whether it is equitable to require those who pay the taxes to finance a portion of O&M expenses not allocable to them.

Also, the FAA administrator has stated that the formula for computing the maximum allowable amount of trust funds that can be used for O&M should not continue in use. He said it has resulted in increasing the unused balance because the use of the trust fund to finance O&M costs has been far less than the 75 percent he believes is justified. Most aviation organizations believe there



is a need to retain the formula to act as an incentive to assure that authorized aviation capital improvement funds are requested and appropriated.

Another option that could decrease the unused balance would involve expanding trust fund coverage to the entire FAA budget and to certain other federal aviation-related activities. Beyond O&M, however, funding these additional activities with trust funds would not significantly reduce the size of the unused balance. In fiscal year 1985, for example, O&M accounted for over 95 percent of that portion of the FAA budget that was not already covered by the trust fund. The remainder was spent for such miscellaneous items as \$54 million for construction and operations at federally-owned Washington Dulles International and National Airports.

In addition to aviation activities carried on by FAA, the National Transportation Safety Board devotes part of its efforts to aviation-related activities; these are financed by general funds. However, the Board's total budget is \$21.5 million, so the cost of its aviation-related activities would not significantly affect the unused balance if they were to be absorbed by the fund.

While the money required to fund miscellaneous aviation activities may seem nominal when compared with a possible unused balance of \$12.4 billion, such a use would cause concern within the aviation community as to whether these activities are responsibilities of the fund and whether funding of them would establish a precedent relative to what could be financed by the fund in future years.

**OPTIONS TO DECREASE UNUSED BALANCE**

**DECREASE AVIATION EXCISE TAXES OR ALLOW THEM TO TEMPORARILY EXPIRE**

**IMPACT OF OPTION**

- TAX RATES COULD BE DECREASED FOR FISCAL YEARS 1988-1990 TO REDUCE THE PROJECTED UNUSED BALANCE TO A LEVEL DESIRED BY THE CONGRESS. THE AMOUNT OF THE TAX RATE DECREASE COULD BE SET AT A RATE TO MORE CLOSELY APPROXIMATE ANTICIPATED EXPENDITURES OVER THE PERIOD.
- ALLOWING THE TAXES TO EXPIRE FOR ONE YEAR WOULD RESULT IN AN UNUSED BALANCE OF ABOUT \$8.9 BILLION AT THE END OF FISCAL YEAR 1990, ON THE BASIS OF PROJECTED EXPENDITURE AND REVENUE LEVELS. INTEREST INCOME WOULD DECREASE BY ABOUT \$0.7 BILLION AND THIS WOULD FURTHER REDUCE THE BALANCE TO ABOUT \$8.2 BILLION.
- MAINTAINING EXCISE TAXES AT THEIR CURRENT RATES WILL PRODUCE A SMALLER UNIFIED BUDGET DEFICIT THAN IF THE TAXES ARE REDUCED OR ALLOWED TO EXPIRE.

**PRIMARY ISSUES**

- SHOULD A TAX REDUCTION, IF ANY, BE ALLOCATED EQUALLY AMONG THE TAXES OR VARY DEPENDING ON WHETHER THE USER GROUP PAYING THE TAXES IS PAYING ALL OF FAA'S COSTS ALLOCATED TO THAT GROUP?
- SHOULD THE AMOUNT OF A TAX REDUCTION, IF ANY, VARY DEPENDING ON THE AVIATION EXCISE TAX INVOLVED OR ON WHETHER THE TAX IS PAID BY GENERAL OR COMMERCIAL AVIATION?

UNUSED BALANCE AT END OF FISCAL YEAR 1990  
(INCLUDES ADJUSTMENTS FOR CHANGES IN INTEREST REVENUES)

\$12.4 BILLION	IF NO CHANGES MADE
\$11.2 BILLION	10-PERCENT EXCISE TAX REDUCTION
\$9.9 BILLION	20-PERCENT REDUCTION
\$8.2 BILLION	EXPIRATION OF EXCISE TAXES FOR 1-YEAR PERIOD

Unused balance in the trust fund  
could be reduced by lowering the  
aviation excise taxes

The revenue provisions of the act that established the trust fund are based on the principle that the best way to finance fund outlays for aviation is primarily through taxes on the users who benefit from the fund programs. For the most part, aviation organizations have favored user taxes as a method to pay for these programs. Although these organizations told us they do not object to the current tax rates, they also noted their expectation that taxes collected would be spent on aviation system modernization and other safety-related improvements. They believe tax rate reductions should be considered if expenditure levels for these purposes are not increased.

Although reducing tax rates or allowing the taxes to expire temporarily represent direct methods for reducing the unused balance, these options are certain to have other ramifications. Specifically, allowing expiration of the taxes or lowering the tax rates will have a negative impact on the unified federal deficit. This may expose these approaches to challenge on grounds that they are not practical at this time.

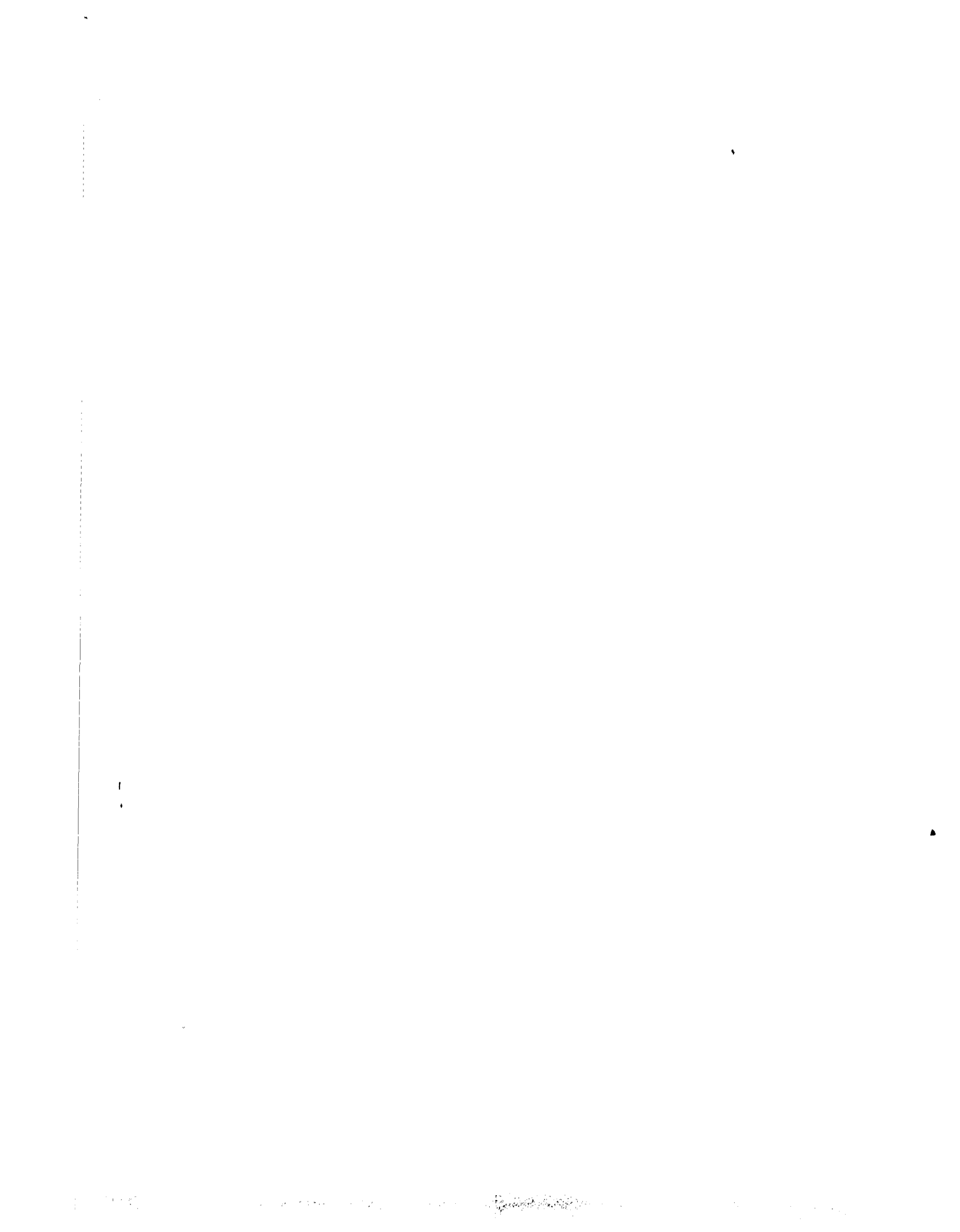
Nevertheless, tax reductions do represent one way to decrease the current and projected unused balance in the trust fund. For example, using FAA projections of tax revenues for fiscal years 1988-1990, an across-the-board tax rate reduction of 10 percent would decrease revenues by \$346 million, \$375 million, and \$401 million, respectively. The 3-year total revenue decrease of \$1.1 billion would reduce the projected unused balance from \$12.4 billion to about \$11.3 billion. Each additional 10-percent decrease in the tax rate would lower the unused balance by about \$1.1 billion. Since the fund would receive less excise tax revenue under this option, it also would receive less interest income. This would result in a further reduction in the size of the unused balance. For example, the 10-percent decrease would lower interest income by about \$0.1 billion by the end of fiscal year 1990; a 20-percent decrease would lower interest income by about \$0.3 billion by the end of fiscal year 1990.

As an alternative to this option, the Congress could allow the excise taxes to expire at the end of 1987 as one way to reduce the unused balance. FAA-projected excise tax receipts for fiscal year 1988 are about \$3.5 billion. If the excise taxes were not renewed for this 1-year period, the unused balance at the end of fiscal year 1988 would be reduced from \$8.2 billion to \$4.7 billion. Then the trust fund projected balance of \$12.4 billion at the end of fiscal year 1990 would be reduced to \$8.9 billion, and the reduced interest income caused by less revenue would further decrease the balance to \$8.2 billion.

Excise taxes need not be cut by a flat rate. There are several types of aviation excise taxes and the Congress may choose to adjust some and not others or, alternatively, to adjust all of the taxes but at different rates. In 1973 and 1978, FAA published results of its cost-allocation studies. Both studies indicate that general aviation was paying a small share of the FAA cost allocated to it, but that commercial aviation users paid a large share of their allocated costs.

Both studies indicate that the commercial aviation and air freight industries and their users pay almost all of their allotted FAA costs--95 percent in the 1973 study and 88 percent in the 1978 study. The general aviation industry, according to the 1973 FAA study, paid less than 20 percent of its share of FAA costs and according to the 1978 study, between 14 and 25 percent of its costs. These studies attracted comments and criticisms from the aviation industry and its users. We have not validated the FAA studies or the cost assumptions used in them.

FAA is currently performing another cost allocation study. The results of this study should be available before the Congress needs to make a decision on reauthorization. If the Congress chooses to reduce or otherwise adjust excise taxes, the results of such a study may be useful to the Congress in deciding how to adjust tax rates. If the taxes are reduced, competitive market forces presumably would determine whether lower tax rates would be passed on to consumers in the form of lower airfares. In turn, lower airfares could cause an increase in air travel, which conceivably could mitigate the effect on the trust fund of a tax rate decrease.



**OPTIONS TO DECREASE UNUSED BALANCE**

**PUT PART OF EXCISE TAX RECEIPTS IN GENERAL FUND  
WITH NO TRUST FUND TRANSFER**

**BACKGROUND.** EXCEPT FOR A 2-YEAR PERIOD (1981-1982),  
EXCISE TAXES HAVE BEEN CREDITED EXCLUSIVELY TO  
THE TRUST FUND

**IMPACT OF OPTION**

--DIRECT METHOD TO DECREASE BALANCE THAT COULD BE  
EMPLOYED UNTIL TRUST FUND UNUSED BALANCE REACHES AN  
ACCEPTABLE PREDETERMINED LEVEL.

--COULD BE EMPLOYED AS A ONE-TIME "FIX" OR A PERMANENT  
ADJUSTMENT FACTOR

**PRIMARY ISSUE.** SHOULD AVIATION EXCISE TAX RECEIPTS  
BE USED TO DIRECTLY FINANCE OTHER GOVERNMENT PROGRAMS  
THAT ARE NOT RELATED TO AVIATION?

**UNUSED BALANCE AT END OF FISCAL YEAR 1990**  
**(INCLUDES ADJUSTMENTS FOR CHANGES IN INTEREST**  
**REVENUES)**

\$12.4 BILLION	IF NO CHANGES ARE MADE
\$8.2 BILLION	IF RECEIPTS FOR FY 1988 ARE NOT CREDITED TO TRUST FUND
\$3.9 BILLION	IF RECEIPTS FOR FY 1988 AND 1989 ARE NOT CREDITED TO TRUST FUND
\$1 BILLION <sup>a</sup>	IF ADJUSTMENTS CONTINUE THROUGHOUT PERIOD

<sup>a</sup>OR ANY ACCEPTABLE PREDETERMINED LEVEL. BECAUSE THIS OPTION  
RESULTS IN DEVELOPING A "FLOOR" FOR THE UNUSED BALANCE, IT  
DOES NOT CONTAIN AN INTEREST-ADJUSTMENT FACTOR; INTEREST  
DECREASES MUST BE CONSIDERED, HOWEVER, IN DEVELOPING STRATEGIES  
TO REACH THE "FLOOR."

Unused balance could be decreased by  
crediting the general fund with part  
of the excise taxes collected

Prior to inception of the trust fund, excise taxes were levied on the aviation industry and its users. For example, pre-1970 rates were a 5-percent ticket tax, a 4-cent-per-gallon tax on aviation gasoline, a 5-cent-per-pound tax on tires, and a 10-cent-per-pound tax on tubes. The receipts from these excise taxes were deposited into the general fund without a requirement that they be used for aviation projects. However, the act establishing the trust fund raised the tax rates and required the Secretary of the Treasury to credit the trust fund in amounts equivalent to the taxes received. The requirement to do this expired at the end of fiscal year 1980 and for the next 23 months excise tax receipts were deposited in the general fund but not credited to the trust fund. As a result, the unused balance in the trust fund fell. (See page 34.)

Thus, as an alternative to reducing the tax rates or allowing them to expire, another option to reduce the current and projected unused balance is to deposit tax receipts in the general fund without subsequently transferring or crediting them to the trust fund. This could continue until the unused balance reaches an acceptable, predetermined level that the Congress establishes. This action could be a one-time adjustment or be activated each time the unused balance exceeds the predetermined level.

As indicated by the chart on the facing page, a 1-year (fiscal year 1988) limitation on putting excise tax receipts in the trust fund would decrease the unused balance by about \$3.5 billion plus an \$0.7 billion decrease in interest income. At the end of fiscal year 1990, the balance would be reduced to about \$8.2 billion. If this limitation continued through fiscal year 1989, an additional \$3.8 billion in excise tax receipts would be removed from the unused balance and \$1.2 billion less in interest income would be received by the fund. This would reduce the unused balance at the end of fiscal year 1990 to \$3.9 billion. In terms of the impact of this option on the federal deficit, it would require neither a net increase in federal expenditures or a decrease in federal revenues.

Although this option is a direct method to decrease the unused balance and can be done on a short- or long-term basis with maximum flexibility, it would require legislation that expressly or by clear implication recognizes the aviation excise taxes as mixed purpose-type taxes. The taxes would be available to the extent the Congress decided was necessary to finance aviation programs, but any excess collected would be available to fund other federal programs.

This would run counter to the view of aviation organizations that excise taxes on the industry and its users are paid only for the purpose of financing aviation needs through the trust fund.

These organizations also feel strongly that making any portion of the tax receipts available for other federal programs is inconsistent with the treatment given other trust funds and that it unfairly singles out the aviation industry to carry more than its share of fiscal responsibility. Finally, they believe that this option would in practice adversely affect the amount of funds made available for improvements to the nation's aviation infrastructure.





**OPTIONS TO DECREASE UNUSED BALANCE**

**WAIVE INTEREST PAYMENTS INTO THE TRUST FUND**

BACKGROUND. TRUST FUNDS NOT IMMEDIATELY NEEDED TO MEET FUND OBLIGATIONS ARE INVESTED IN TREASURY SECURITIES AND INTEREST INCOME EARNED IS CREDITED TO THE FUND

IMPACT OF OPTION. IF INTEREST IS WAIVED FOR FISCAL YEARS 1988 THROUGH 1990, THE UNUSED BALANCE WILL BE DECREASED BY AT LEAST \$2.4 BILLION

PRIMARY ISSUE. SHOULD THE AVIATION TRUST FUND ACCRUE INTEREST ON ITS INVESTMENTS IN TREASURY SECURITIES IN THE SAME MANNER AS OTHER FEDERALLY-ESTABLISHED TRUST FUNDS, SUCH AS THE SOCIAL SECURITY AND HIGHWAY TRUST FUNDS?

UNUSED BALANCE, END OF FISCAL YEAR 1990

\$12.4 BILLION

IF NO CHANGES ARE MADE

\$10 BILLION

IF INTEREST WAIVED FOR FISCAL YEARS 1988-1990

Unused balance could be decreased by  
waiving interest payments to the  
trust fund

The trust fund legislation requires that funds not immediately needed for trust fund obligations be invested in Treasury securities and interest earned on these investments credited to the trust fund. From fiscal year 1971 through fiscal year 1985, the trust fund received about \$4.3 billion in interest payments from such investments--about \$746 million in fiscal year 1985 alone.

An option for decreasing the unused balance is to waive interest payments to the trust fund. The Office of Management and Budget, Department of Transportation, and FAA favor such an option. In April 1985, the Secretary of Transportation proposed legislation that would have had this effect. No legislation was introduced to accomplish this. However, the administration's fiscal year 1987 budget proposes that the Congress discontinue the requirement for the crediting of interest to the trust fund.

The administration's budget indicates that interest income may be \$790 million for fiscal year 1987 if its proposal is not enacted. For the purpose of analysis and to attach a dollar impact on the option of waiving interest for the period 1988-1990, we used the \$790 million as interest income for each of the three fiscal years. This figure does not consider factors that would increase interest revenues, such as the increase in tax revenues projected by FAA and a considerably larger balance on which the interest would be computed. The influence of these factors will be mitigated, however, if interest rates continue to drop and remain low for a sustained period of time. On the basis of our analysis, waiving interest would decrease the projected unused balance in the trust fund by about \$2.4 billion through fiscal year 1990, resulting in a \$10 billion unused balance at the end of the period.

Waiving interest would cause the aviation trust fund to be treated differently from other federal trust funds--such as the social security and highway trust funds--which invest their funds and are credited with interest earned. Such a step would allow the general fund to make use of trust funds interest free and appears to run counter to the principle currently underlying the aviation and other trust funds--namely, that it is sounder fiscal policy to invest excess trust funds in Treasury securities and to ensure that such investments produce income for the fund involved.

Aviation organizations told us they believe termination of interest payments undercuts at least in part the logic of having a trust fund and that trust funds not immediately needed for aviation purposes should continue to be invested and interest credited to the fund that made the investment in the first instance. If one concurs with the administration's position that the fund has been spending substantially less for O&M than its

fair share, an argument could be made that the fund has been credited with considerably more interest income than it otherwise would have. However, the share of O&M borne by the fund was prescribed by statute, and the fund paid what the applicable statutes allowed.



**OPTIONS TO DECREASE UNUSED BALANCE**

**INCREASE TRUST FUND EXPENDITURES FOR EXISTING PROGRAMS**

- WHILE THERE MAY BE NO SHORTAGE OF IDEAS ON WAYS TO SPEND THE MONEY, A MAJOR ISSUE ASSOCIATED WITH CAPITAL IMPROVEMENT SPENDING INCREASES WILL BE THE EXTENT TO WHICH PROPOSED PROJECTS OR ACCELERATED PROJECT IMPLEMENTATION SCHEDULES CAN BE JUSTIFIED FROM THE STANDPOINT OF FEASIBILITY, BENEFITS, AND COST
- THERE IS AGREEMENT WITHIN THE AVIATION COMMUNITY THAT SPENDING NEEDS TO BE INCREASED BUT LESS AGREEMENT ON THE PROJECTS THE MONIES SHOULD BE SPENT ON
- SOME AVIATION GROUPS EMPHASIZE SPENDING INCREASES THAT TEND TO BENEFIT GENERAL AVIATION, WHILE OTHERS FOCUS ON SPENDING FOR COMMERCIAL AVIATION NEEDS; DIFFERENT VIEWS ALSO EXIST AS TO WHETHER AN INCREASE SHOULD CENTER ON THE GRANT PROGRAM, ENHANCED NAS PLAN IMPLEMENTATION, OR BOTH

Unused balance could be decreased  
by increasing trust fund  
expenditures for existing programs

Besides operations and maintenance expenditures, trust funds are used to finance all of FAA's facilities and equipment; the federal share of the airport improvement grant program; and research, engineering, and development. One option to decrease the current and projected trust fund unused balance would be to increase the expenditure level for one or more of these capital improvement-related activities.

Unlike the other options, this one requires a net increase in overall federal expenditures for aviation. Increasing fund operations and maintenance expenditures under the option previously discussed would not require a net increase because the amount of O&M covered by the general fund would shift to the trust fund. Such a shift would not occur if expenditures for capital improvements were to increase over currently projected levels. This is because the general fund does not pay for any of these items under current law. They are borne entirely by the trust fund.

While there may be no shortage of ideas on ways to increase spending and thereby reduce the size of the unused balance, the option to increase spending for capital improvements has a number of practical limitations, particularly in the short term. If the Congress decided that an increase in spending was worth pursuing in concept, the projects that would be the object of the spending would have to complete the customary process of being identified, evaluated, and fully justified. The justification would have to cover not only whether the project was needed and feasible, but, in addition, whether the benefits of a particular project outweighed others that were in competition with it for trust fund dollars. In cases where FAA feels the project has already been justified but the spending increase proposal assumes an accelerated project implementation schedule, the revised schedule itself would have to be justified from the standpoint of feasibility, production, and development risks. This would be an important issue, for example, in the case of several key NAS plan projects whose schedules have already slipped (e.g., microwave landing system and flight service station automation), and projects such as the advanced automation system and terminal Doppler weather radar, which are in the research and development stage and involve complex applications of state-of-the-art technology.

Although general agreement exists in the aviation community that the solution to the growing unused balance is to increase spending, there is less agreement on precisely where the increases should take place. Some groups focused on spending increases that would benefit general aviation, while others pointed to the needs of commercial aviation. Different perspectives also existed on whether the spending increases should be for the grant program, for the NAS plan, or both.

The Airport Operators' Council International (AOCI), for example, believes emphasis should be placed on increasing expenditures for the airport improvement grant program. At one time, 50 percent of trust fund expenditures went for airports while, in recent years, it has been 25 percent. The General Aviation Manufacturers Association (GAMA) points out that the current airport system plan has an estimated \$18 billion in needs, so this alone, in its view, could absorb the trust fund balance by increasing funding for the grant program. The plan to which the GAMA refers is a 10-year National Plan of Integrated Airport Systems compiled in 1984 by FAA and consisting of proposals submitted by airports throughout the country. However, it has not gone through the FAA grant justification process and the individual projects of which it is comprised would, like other grant program projects, have to be evaluated from the standpoint of feasibility, need, cost, and benefit.

An increase in grant program funding along the lines suggested by GAMA is at substantial variance with current administration-proposed spending levels. According to FAA budget data, the grant program's enacted and projected expenditure levels for fiscal years 1984-1987 average about \$840 million annually--and for fiscal years 1988-1990, about \$500 million. This is considerably less than the \$1.8 billion that would be required if the \$18 billion could be justified and if it were annualized over the 10-year period. It was not within the scope of our review to evaluate whether the \$18 billion could be justified or to determine whether the administration's projected spending levels for the grant program are reasonable.

While AOCI and GAMA emphasized spending increases for the grant program, there were other perspectives on where spending could be increased. The Air Line Pilots Association (ALPA), for example, wants all airports serving commercial aviation to have what it describes as a bare minimum of necessary facilities and equipment for safe operations. ALPA said that only 40 percent of air carrier airports currently satisfy its standards. The pilots' association believes the trust fund balance could be used for approach lights, grooved runways, better taxiways, and other elements of the bare minimum system. ALPA also continues to support spending for the microwave landing system, which is one of the NAS plan projects that have been delayed. However, the Air Transport Association (ATA) feels this project has been delayed so long that other technology, such as a satellite navigation system, has developed to the point that it will soon achieve the benefits microwave landing systems were intended to provide.

ATA believes that key NAS plan projects could be implemented more effectively and expeditiously and, as noted previously, holds the view that an independent or quasi-independent federal corporation is the best vehicle for accomplishing this. ATA proposes that the unused balance be used for the initial capitalization of the corporation.



As part of our development of options to decrease the unused balance when reauthorizing the trust fund, we discussed NAS plan spending projections for fiscal years 1988-1990 with FAA. Its projected fiscal year 1988-1990 expenditures for the NAS plan represent a total of about \$3.9 billion. We computed the projected 1990 unused balance using these figures and by taking into account projected revenues for the same period. According to FAA program office documents that describe each NAS plan project's progress, goals, and financial needs, about \$4.6 billion (\$0.7 billion more than current administration projections) will be needed for the fiscal year 1988-1990 time period.

According to an FAA budget official, FAA is currently reviewing these need estimates and expects they may be somewhat higher than current administration projections. Pending further review and development of the program office estimates, he was not in a position to say how much of a variance there will be. However, even if current administration projections for the NAS plan are revised upward by the additional \$0.7 billion reflected in the program office documents, this would not be sufficient to absorb the fund's unused balance, either at its current or projected 1990 levels.

While determining the reasonableness of the spending levels reflected in these program documents (as well as those projected by the administration) was beyond the scope of this review, we are aware of no estimates, either within the aviation community or elsewhere, suggesting that NAS plan expenditures alone could be increased between now and 1990 at levels sufficient to consume a projected \$12.4 billion unused balance.

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